Foreign Office Location Study

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Robert T. Monagan, Chairman

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A special committee of the California State World Trade Commission has reviewed and approved the analysis and priorities established by this study.

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EXECUTIVE SUMMARY

The California Trade and Commerce Agency (CTCA) currently operates nine overseas outposts. The first office opened in Tokyo in January 1987. This was followed by London in April of the same year, Mexico City (January 1989), Frankfurt (October 1989), Hong Kong (February 1990), and Taiwan (September 1994). The Israel Office was opened in December 1993, under a contract with the Israel-based consulting firm Atid EDI. The state's Sub-Saharan Africa Office opened in Johannesburg in October 1995 and California placed a consultant in Korea (not funded) in October 1996. California opened an Indonesia Satellite Office in June 1996, but subsequently closed the office in October 1998 after economic collapse in Indonesia. As a result of this study and budget negotiations in the Legislature, CTCA has received $1.4 million in the Fiscal Year (FY) 1998-99 Budget to establish new foreign office representation on a contractual basis (like Israel) in South Korea, China, Brazil, Canada, and the Philippines. These offices work in coordination with the programs of the CTCA's Division of International Trade and Investment (ITI), including the state's Offices of Foreign Investment (OFI), Export Finance (CEFO), Export Development (OED), California-Mexico Affairs (OCMA), and the Environmental Export Program (EEP) to promote the state's international commerce and attract foreign investment.

This report identifies the leading sites for new overseas offices based on economic and strategic variables (Part II, IV and V). The analysis presented in this report and the appendices corroborate the recommendations made in this study. Before making specific recommendations, we began by asking a few specific questions. First, in general terms, what are the public resources and programs available to California companies that are attempting to develop their international business? This question is addressed in Part I. Second, based on economic and strategic variables, which geographic regions are the leading candidates for a new California foreign office representation? (Part II) Below, we summarize the main findings presented in this study.

Part I Findings: Existing International Resources

California's economic trends underscore the importance of trade and investment to the state's prosperity. Altogether, more than 2.6 million of California's 15.5 million strong work force receive their paychecks due to international trade and investment, accounting for 20 to 25 percent of the state's trillion dollar economy. With California manufactured exports surpassing $109 billion in 1997 and the increasing globalization of the world economy, the Golden State's international competitiveness will only become more relevant in the future. Although the federal government has numerous resources available to assist California firms internationally, no federal entity is in a position to solely advocate on behalf of the Golden State's businesses. Therefore, CTCA's ITI Division, in conjunction with the international programs of the California Department of Food and Agriculture, the California Energy Commission, the California Environmental Protection Agency (Cal EPA), the California Department of Health Services, and the Centers for International Trade and Development (CITD) operated by the California Community College system, has been established to do exactly what the federal government will not do–advocate exclusively for California firms in the ever more competitive global marketplace.

When the CTCA's international program resources were reviewed and audited in the spring of 1996, it became clear that existing program resources were insufficient to meet the growing demand for services in key global markets. It suggested that the state's international programs were designed for a simpler time and needed to be upgraded to keep up with competition from other states and countries as well as to take advantage of new global opportunities. It was shown that there were insufficient resources, staff and foreign office locations to promote new business with and identify opportunities in both developing and industrialized countries. Since this time, most of the competitive and efficiency issues faced by ITI have been addressed. With the recent budgetary approvals, the issue of additional foreign representation has also been addressed. The immediate aim of the program is to consolidate our existing resources and focus on the strategic development and integration of our newly funded offices.

Part II Findings: Analysis of Leading Markets

Like any business looking at expanding their current operations, California must pursue its future in an economically strategic manner, placing subsequent foreign offices in the locations which would optimally

benefit California's current and future economic, business and taxpayer interests. To do this, we developed a methodology and criteria for evaluating potential future office sites using a set of economic and strategic factors that would take into consideration disparate economic, political and cultural landscapes.

In the past, the Foreign Office Location Study (FOLS) has been a thorough, qualitative assessment of the world markets. This year, we tried to improve on the objectivity of the study by adding a quantitative economic model to complement and validate our qualitative assessments. This new statistical model is an improvement over the previous system in that many more factors are considered, giving a clearer, more accurate picture that ranks the countries' short- and medium-term potential as importers of California products. The model (Part V) analyzes and ranks markets through the comprehensive evaluation of 22 economic variables in 8 categories - Market Potential, Economic Health, Market Risk, Trade Receptivity, Market Confidence, California Compatibility, California Linkages, and Global Competitiveness.

Not only does the new model look at potential sites for future foreign offices, but it also includes the markets of our 10 existing foreign offices, as well as the 4 new offices funded in the 1998-99 California State Budget. In total, the new model analyzes 31 foreign markets. Over the years, we hope this model will give us valuable insight not only into the need for new foreign offices, but also the need for existing ones as well. In the first year of the economic model, the results seem to validate the current activities and development of the foreign office program. Seven of the top ten markets in the economic model are covered by existing foreign offices or newly funded offices. Of the other three markets, Singapore (ranked second) has consistently been recommended by this study as a top priority for foreign office expansion; while consultants for France and the Netherlands have also been advocated in the past, although not as strongly due to the existence of two offices in Europe.

The only true surprises came from Mexico and Brazil. Although Mexico ranked in the middle of the pack in economic terms (ranked 17th), its strategic value due to its geographic proximity to California, cultural linkages, success of the Mexico City Office, and existing trade and investment relationship with California all indicate that an office there is necessary. Brazil's ranking (29th) suffers greatly from attempts in recent years to overcome a historical legacy of an inward-oriented development approach. However, with renewed commitments to economic liberalization and outward-oriented development approaches, the lack of California representation in South America, and the overwhelming size and potential of the Brazilian market, we believe Brazil to be a strategically good choice.

Again, when reviewing the results of the economic model, keep in mind that it analyzes only quantifiable "economic" factors and that the qualitative "strategic" factors which represent the other part of our office location assessment are not represented here. Conversely, strategic factors focus on more qualitative considerations such as political stability; the demand by California firms for on-site assistance; the need for the office to assist in overcoming language; business and cultural barriers to trade, the ability of the office to service markets not addressed effectively by current offices; and the ability of the location to serve as a regional hub.

With a gross state product (GSP) surpassing $1 trillion in 1997, the economic climate in California remains strong. In order for the Golden State to fully take advantage of new global opportunities, CTCA must continue to be able to meet the needs of California companies competing in the volatile international marketplace. We have examined the current resources available to California companies, taking into account trends in the international economy, and have identified geographic regions where new trade and investment offices can substantially impact California's competitiveness as summarized in this report.

The current focus of the International Trade and Investment program is to consolidate our current resources and focus on the strategic development and integration of our new offices. Although we are not recommending the addition of any new offices this year, we will continue to update and improve the FOLS on an annual basis as a way of evaluating our existing operations and keeping in touch with the development of world markets viewed from a California perspective. If we were to recommend new sites for foreign office expansion, the best potential sites according to our economic and strategic analysis would include: Singapore, France, the Netherlands, Chile, and Argentina.

Part I: Existing International Resources

California's foreign office program is an important component of the state's ongoing effort to create jobs through international business by expanding exports and attracting foreign investment. This section outlines the context in which the foreign office program operates, as a preface to the analysis of top markets and locations in the subsequent sections of this report.

A. California's Special Needs

California is a world leader in everything from agriculture to entertainment and leads in nearly every industry of the future such as the Internet and biotechnology. More than any other state, international business drives California job growth and economic prosperity. International trade has been recognized by such sources as *The New York Times* and *The Economist* as one of the three pillars of California's economic strength. Of great importance is that international trade - exports as well as inward foreign direct investment (FDI) - directly and indirectly support 2.64 million jobs, 16 percent of total employment in the state. While dynamic California companies such as Hewlett-Packard, Intel and Disney, which comprise the majority of international trade, do not generally need government assistance to remain globally competitive or penetrate foreign markets, there is still a crucial role for government to play in the state's international business development. Specifically, California government can play an integral role in identifying specific programs and policies that promote the state's competitiveness, facilitating the entry into international markets of small- and medium-sized companies, and raising the international profile of all regions of the state for international trade and investment opportunities.

Stake in the International Economy

The Golden State serves as the "gateway to the Pacific" and is home to the nation's most active international ports. Three of the nation's four largest container ports are located in California, accounting for 35 percent of total US container port activity. Total two-way trade through California's customs districts totaled $316 billion in 1997, 20.3 percent of total US trade. The Los Angeles customs district is the nation's largest, in terms of trade value, and the San Francisco/Oakland district ranks number four.

In 1997, California exported an unprecedented $109.5 billion of merchandise production to global markets, accounting for 16 percent of total US exports. This was $25.2 billion more than Texas, the union's second largest exporting state. California exports have been on a dramatic rise in recent years, including 1997 when exports grew 6.1 percent, a $6.3 billion increase. Combined, these exports, directly and indirectly, support 2.1 million jobs in the Golden State.

California is also a primary site for attracting FDI. According to the most current data, in 1995, California continued to outpace all other states with $96 billion in total FDI or 12.5 percent of total FDI in the US. This investment directly supported 550,000 California jobs. Because of California's strong infrastructure, wealth of research facilities and well-educated work force, the majority of this investment continues to be in high value-added industries such as technology and services.

As California's exports grow and diversify, problems in any single trade partner have a smaller and smaller impact on the overall state economy. The rapid growth in international trade liberalization supported by the expansion of the World Trade Organization (WTO) and certain regional trade groups, such as Asia Pacific Economic Cooperation (APEC) forum and the North American Free Trade Agreement (NAFTA), all bode well for California. Empirically speaking, the first three years of Uruguay Round implementation have yielded outstanding results as California exports have increased 28 percent to $109.5 billion and diversified accordingly.

Despite an international environment ever-more favorable to trade, however, small- and medium-sized companies are not equipped with the proper resources to exploit this historic opportunity. ITI's network of stateside and foreign offices play an integral part in this process of increased exports and investment

attraction by working to educate California companies of these growing opportunities and helping them take advantage of it.

International Business Needs

There exist organizations at the federal, regional and local level to help US-based businesses export their goods to many regions of the world. US government resources providing international business services include the Department of Commerce (US DOC), the Department of Agriculture, the Small Business Administration (SBA), the Export-Import Bank (Ex-Im Bank), and the Overseas Private Investment Corporation (OPIC). Regional organizations such as LA Trade and Bay Trade provide assistance to exporters in their region. On the local level, start-ups can find assistance through such resources as local Economic Development Corporations (EDCs) and/or one-on-one export counciling at CITDs.

As helpful as the above organizations may be, their broad-based responsibilities and loyalties mean that they do not have the resources to adequately serve the unique needs of California's businesses. California businesses and geographic regions need a state-level strategy, with appropriate and California-specific programs, that leverages existing services in promoting business under the state's banner. This is where the Agency, through OFI, OED, CEFO, OCMA, EEP, and Trade Policy and Research, focuses its efforts. However, these stateside offices would be inefficient at assisting California companies in penetrating global markets without extensive in-country intelligence about how these foreign markets operate. This essential role is filled by the state's network of foreign offices.

B. Foreign Offices

California's foreign offices identify commercial contacts interested in purchasing California goods or investing in the state and play an integral role in ITI's successful efforts to create jobs and revenue for the State. In fact, the foreign offices *directly participated in attracting almost all of the $2 billion and 4,050 jobs that ITI brought into the state* in FY 1997-98.

The foreign offices support all of ITI's individual offices. For instance, OED organizes the participation of California companies in the world's top trade shows. The foreign offices, in turn, advertise the California companies attending the show, set up matched meetings on behalf of the companies, make introductions at the show, and help companies follow-up afterwards. In support of OFI activities, the foreign offices help identify investors, collect detailed information on the investor's needs, help to finalize the investment decision, and organize missions of investors to come to the state and learn about investment opportunities.

Foreign offices take two forms. The first is a fully staffed office with people employed on the state's payroll. The other is a consultancy under which an individual under direct contract with the Agency is placed in the target market. The first office opened in Tokyo in January 1987. This was followed by London (April 1987), Mexico City (January 1989), Frankfurt (October 1989), Hong Kong (February 1990) and Taipei (September 1994). California's Israel Office was opened in Jerusalem in December 1993, the State's Sub-Saharan Africa Office opened in Johannesburg in October 1995, and Indonesia and Korea opened in June and October 1996, respectively. With the exception of Israel, Indonesia and Korea, the current foreign offices are all full-fledged offices. In the FY 1998-99 Budget, CTCA received $1.4 million in funding to establish representation on a consultancy basis in Seoul, South Korea; Shanghai, China; Sao Paulo, Brazil; Manila, Philippines; and Calgary, Canada.

What sets California's foreign offices apart is their exclusive attention to the economic interests of the state and its companies. Services are more tailored to California needs than those offered by federal programs. On the export development side, California foreign offices are particularly effective in working with highly competitive small- and medium-sized companies that are trying to enter foreign markets but lack the resources to accomplish this task on their own. In many cases, the US government offices are incapable of providing the detailed attention that can be offered by California offices. In addition, no other program makes any efforts to attract foreign investment to the state.

C. Need for an Expanded California Presence Overseas

As this report documents, California has no representation in several of the state's most important markets. Before going into detail about the various countries offering opportunities for California, it is important to clarify why additional offices will be needed in the future. Clearly, California companies that have the resources to export on their own need little assistance beyond that provided by existing resources abroad. Investors who have already chosen to locate a manufacturing plant in California need only focus on interacting with local authorities to finalize the site decision. The purpose of California's offices abroad, however, is to build additional business for the state that would not otherwise have been brought to California. Additional offices become important if the growth of opportunities in specific markets grows so greatly that a California presence could tap a significant level of new exports or investment for the state.

In assessing the need for new foreign offices for the state, this report weighs a comprehensive set of economic and strategic factors for individual countries. Economic factors include the economic might of a country, the market potential in growth terms, and the level of international trade and investment flows. Strategic concerns include political stability, the role of the region in which the country is located, whether or not the market can be serviced by an existing California office, the feasibility of using the country as a regional hub for the state's business development activities, and the need for specific on-site assistance to California companies and international programs.

Part II: Analysis of Leading Markets

This section briefly identifies the key regions in the global economy in which California Offices for Trade and Investment could generate additional international commerce to create jobs in the state. Currently, California is represented in Europe, with offices located in London and Frankfurt; East Asia, with offices in Hong Kong, Taiwan, Japan, and South Korea; Southeast Asia, with an office in Indonesia; Africa, with an office in South Africa; in Latin America, with an office in Mexico City; and the Middle East with an office in Israel. In the FY 1998-99 Budget, CTCA received appropriations to fund additional offices in China, Brazil, the Philippines and Canada.

A. Method

In order to analyze these regions and countries, we first identify categories for making comparisons among them. We do so because it is difficult to rigorously compare countries given their disparate economic, political and cultural landscapes. Essentially, we have identified these factors as being either economic or strategic in nature. Below is a brief description of the key criteria we look at within these factors.

Economic Factors

- **Market Potential** - Size of the economy, purchasing power, population.
- **Economic Health** - Unemployment, Gross Domestic Product (GDP) growth, current account balance.
- **Market Risk** - Foreign reserves, long- and short-term inflation rates.
- **Compatibility with California** - Level of economic and social development.
- **Linkages with the State** - Host country's investment in California, value of California products in the country.
- **Trade Receptivity** - Tariff rates, trade levels.
- **Market Confidence** - Stock market capitalization, FDI.
- **Global Competitiveness** - Global integration, development level of technological, physical and human capital infrastructure.

Strategic Factors

- **Scope** - Importance of an office in overcoming language and cultural barriers to trade and degree of difficulty in penetrating the domestic market.
- **Location Issues** - Office's potential as a regional hub, other offices already located in the region which can serve this market.
- **Demand for On-site Assistance** - Level of interest expressed by California businesses in helping facilitate trade and investment in the country.
- **Political Stability** - Qualitative assessment of country's long-term commitment to development of a liberalized market economy and inherent ability of political forces to ensure that commitment.

Economic Model

In the past, the FOLS has been a thorough, qualitative assessment of the world markets. This year, we tried to improve on the objectivity of the study by adding a quantitative economic model to complement and validate our qualitative assessments. This new model is an improvement over the previous system in that many more factors are considered, giving a clearer, more accurate picture that ranks the countries' short- and medium-term potential as importers of California products. The resulting ranking serves as a guide to which economies we expect to fare better (relative to the others on the list) and purchase more California exports during the next several years. Furthermore, with the wide range of indicators inputted, any pre-conceived biases are eliminated.

Below is a list of 22 variables (criteria) that comprise our economic model and the weights attached to them. These variables are grouped into eight categories - market potential, economic health, market risk, trade receptivity, market confidence, California linkages, California compatibility and global competitiveness. Inclusion of variables was guided partially by the availability, consistency and integrity of data, as well as a thought to future expansion of the study to include new countries.

	% of Total		% of Total
Market Potential	**20.0**	**California Linkages**	**16.6**
Private consumption	2.0	# of products on DOC list	1.8
Nominal GNP	5.2	Value of CA Imports	6.5
Population	6.4	Country's FDI in CA	5.0
GNP per capita	6.4	Ratio of CA/US Imports	3.3
Economic Health	**15.0**	**Market Risk**	**13.4**
Unemployment	4.5	Foreign Reserves	3.4
GDP growth	6.8	LT Inflation	6.0
Current Account	3.8	ST Inflation	4.0
California Compatibility	**8.4**	**Trade Receptivity**	**15.0**
Services as % of GDP	3.4	Tariffs	5.3
Literacy	5.0	Trade as % of GDP	4.5
		Total Trade	5.3
Market Confidence	**6.6**		
Stock Market Cap.	2.6	**Competitiveness**	**5.0**
FDI as % of GDP	4.0		
		Total	**100%**

Under the new model, each country's indicator for a given variable is made proportional to the other countries' variables through a calculation that takes into account the mean and the standard deviation of the total. This "z-score" (a statistical procedure to standardize scores) allows that indicators as diverse as "current account to GDP" and "host country's FDI in California" be ranked and scored in an identical and accurate manner.

Not only does the new model look at potential sites for future foreign offices, but it also includes the markets of our 10 existing foreign offices (in ***bold italics***) as well as the 4 new offices funded in the 1998-99 California State Budget (in *italics*). In total, the new model analyzes 31 foreign markets. The results of the study are listed below.

When reviewing these results keep in mind that the economic model comprises only quantifiable "economic" factors and that the qualitative "strategic" factors which represent the other part of our office location assessment are not represented here. The methodology and raw data backing the model are included in the appendix to this study.

Rank	Country	Z-score
1	***Japan***	1.35298
2	Singapore	0.98694
3	***Hong Kong***	0.57789
4	***Germany***	0.45187
5	***UK***	0.45183
6	Netherlands	0.4113
7	*Canada*	0.39733
8	***Taiwan***	0.33057
9	France	0.29252
10	*China*	0.22126
11	***South Korea***	0.1264
12	Australia	0.12625
13	Sweden	0.12301
14	Italy	0.05883
15	Malaysia	0.00116
16	Chile	-0.04597
17	***Mexico***	-0.06131
18	Spain	-0.08805
19	***Israel***	-0.09958
20	Thailand	-0.15859
21	***Indonesia***	-0.26923
22	Argentina	-0.28826
23	Czech Repub	-0.29446
24	*Philippines*	-0.33717
25	Poland	-0.36918
26	Hungary	-0.41519
27	***South Africa***	-0.57433
28	India	-0.6362
29	*Brazil*	-0.63736
30	Egypt	-0.65128
31	Russia	-0.80083

Bold Italics = Existing Foreign Offices
Italics = Newly Funded Offices

Strategic Factors

In contrast to economic factors, strategic factors cannot be easily quantified but have significant ramifications for the operations, strategy or representation of the foreign office. Furthermore, they are considerably difficult to utilize in country and/or regional comparisons. Nonetheless, we identify four: scope, location issues, demand for on-site assistance, and political stability.

Of the four strategic factors, scope is the easiest to analyze. The basic question of scope is whether or not the proposed new site offers assistance in a key region *regardless of major differences in economic factors across regions.* Location issues address several matters. Does this location provide the office with the ability to service nearby markets, or can it serve as a hub for assistance in more than one important market within a region? Or, in regions which already have a state overseas office, is there another major market for California trade and/or investment that is not served?

The third issue, demand for on-site assistance, relates to the presence of formidable factors that obstruct the ability of California firms to conduct business in some countries. The marginal benefits from on-site assistance from the state would therefore be greater than they would be in other markets. The fourth factor, political stability, allows us a way to analyze overarching political trends which may not be immediately reflected in quantifiable economic data available. For example, the political vacuum in Indonesia, capital controls in Malaysia, or political chaos in Russia may have tremendous short-, medium- and long-term implications for international business confidence in these markets that could not be fully captured in our economic model.

B. The Asian Crisis and its Consequences

Before we delve into the advantages and disadvantages of various regional markets, we must first look at the implications of the Asian financial crisis which is having a profound effect on the global economy. After decades of tremendous economic growth and development, Asia is now experiencing growing pains. The crisis began in early July 1997 with the devaluation of the Thai baht. This was followed by attacks on other regional currencies, including Indonesia, Malaysia and the Philippines. In December, the Asian Flu spread to the Korean economy, the world's 11th largest. And, by early 1998, Japan, the once-venerable regional economic powerhouse and world's second-largest economy, finally fell victim to a deep structural banking crisis which has mired the country in stagnation for most of the 1990s.

The Asian financial crisis has led investors from around the world to lose confidence in "emerging markets." As a result, people have decided to pull their money from many of those financial markets such as Russia, South Africa and Brazil. The final damage of the Asian Flu on the world economy is still unknown. The ultimate depth and length of the Asian financial crisis will depend on numerous factors, including: Japan's ability to make the tough choices necessary to put its economy back on track; the ability of China to resist devaluation; and the ability of the US, Europe and other countries to withstand pressure on their economies and prevent the Asian crisis from triggering a global recession.

The Asian financial crisis is clearly inauspicious for the California economy. California is more dependent on Asian trade than the rest of the US, with Asian exports accounting for 50 percent of Golden State exports compared to 25 percent for the US as a whole. California exports to the Asian 10 (Japan, China, Korea, Taiwan, Singapore, Malaysia, Indonesia, the Philippines, Hong Kong, and Thailand), which account for 49 percent of California exports, were down 18 percent through the first half of 1998 and things will likely not get better for the next year or so. Of these markets, only exports to China showed an increase over 1997 levels. Nevertheless, export gains to the NAFTA partners and Europe have offset losses to Asia thus far, as total California exports through the first half of 1998 were down only .06 percent.

The financial crisis undoubtedly poses some serious risks and unavoidable consequences for those actors directly (Asian economies) and indirectly (i.e. US businesses and banks, and other emerging economies) involved. But at the same time, the changes that are occurring may lead to tremendous new opportunities for all those involved as well. In looking at the crisis, we must continue to focus on the positive implications of the changes that are occurring in Asia.

Everyone knows about the problems: currencies are devaluing, economies are slowing, banks and companies are falling by the wayside. Nevertheless, the underlying economic foundations of the majority of the countries in Asia are sound. The changes that have been initiated by the Asian Flu will lead to necessary changes in this region's economies and make them more competitive and better positioned for long-term growth.

Just as California ignored its premature obituaries during the defense cuts and recession of the early 1990s, so too should the leaders of Asia put in perspective the "doom and gloom" predictions for their future. Hopefully, the current crisis has given the leadership of these Asian countries the political will to

make the necessary changes in their political and economic infrastructure that can jumpstart their economies and make sustainable economic growth a more permanent component. In the long run, Asia will resurface. And, just like California, it will resurface as a stronger, more competitive economic region with more open and flexible markets. California and its companies can be well positioned to reap the benefits of Asia's resurgence, but only if we remain committed to the region as a viable and resilient economic market.

Table 1: California and US Trade with Regional Trade Groups

Region	1997 CA exports ($ millions)	% CA exports	1997 US exports ($ millions)	CA as % of US exports
ASEAN (9)	13,984	13	48,350	29
APEC (17)	78,646	72	427,089	18
EU (15)	21,137	19	140,803	15
NAFTA (2)	23,508	21	221,502	11
MERCOSUR (6)	2,225	2	27,851	8
East Asia* (5)	37,938	35	139,048	27

( ) = Number of countries in group, excluding the United States.
* "East Asia" is defined as Japan, Korea, China, Hong Kong, and Taiwan

C. Latin America

Of the four regions we have identified, Latin America's market ranks behind Western Europe, East Asia, and Southeast Asia in terms of economic factors, but ahead of them on the basis of strategic factors. In terms of economic factors, Latin America looks to be a somewhat better market than Eastern Europe, and a significantly better one than Russia, the Middle East, Sub-Saharan Africa, or India. Strategically, it is on par or a little behind Eastern Europe and ahead of the other regions.

Strategically, Latin America is ahead of Western Europe, East Asia and Southeast Asia for two primary reasons. For one, California currently maintains several offices or consultancies in each of the regions. Equally important, however, is California's lack of trade ties with a potentially huge region. Excluding Mexico and Brazil (where the State currently has an office and a consultancy, respectively) California's most important Latin American export markets are Argentina and Chile. These 2 countries boast a combined population of 50 million people and GNP of $365.2 billion yet bought a mere $927.4 million of California goods in 1997, 0.8 percent of total California exports. For comparison, California's exports to Mexico, the state's second largest export market, totaled $12.1 billion in 1997, 11 percent of total California exports.

South America's prospects appear brighter when considering all of MERCOSUR (Spanish anacronym for the Southern Cone Common Market). With the addition of Chile and Bolivia, MERCOSUR has access to both the Pacific and Atlantic, a market of 227 million people and a combined Gross National Product (GNP) of over $1.1 trillion. As Latin American countries continue on their developmental path, their demand for high-tech equipment, industrial machinery, infrastructure development products and consulting services will continue to grow. This demand is compatible with California's competitive advantages. In short, the potential for growth, given the limited base of US and California exports to the region, is arguably the greatest in the world. Evidence of this potential is that California exports to MERCOSUR increased 13 percent in 1996, 5.2 percent in 1997, and 8.2 percent through the first half of 1998.

Another reason South America should be considered a strategically important region is due to its politico-economic development stage. After five decades of failed state-led economic strategy, there is a growing political consensus that free-market approaches to development should be followed. Tariffs are being lowered, privatization is speeding along, and companies are moving to modernize and become more efficient through technological improvement. By nature of its native industries, California is well-placed

to exploit the region's demand for efficiency-enhancing technology. Since both the Europeans and the Japanese recognize this as well, an office in the region will likely give California companies an added edge over their non-California competitors.

Given that ITI received funding in the FY 1998-99 Budget for a consultant in Sao Paulo, Brazil, any new consultants or offices should be placed in either Chile or Argentina due to the relatively advanced stage of their economic and business development. Chile ranked first among the three South American countries we examined based on economic factors. Much of the reason for this is that in Chile there has been a long-running political consensus that a liberal trading regime and a pro-business environment was best for the country. As a result, the economy is highly stable, it consistently ranks among the world's top investment sites, and is viewed globally and regionally as a model for economic development. Specifically, Chile has enjoyed low inflation, a high per capita GNP of $11,700 and 14 years of uninterrupted economic growth (7 percent from 1990-1997). Chile's principal drawback as a potential location for a future representative is its lack of relative economic scale with a population of only 14.5 million people.

Argentina has been characterized by a much greater level of financial and economic instability, and there has been no political consensus as to which is the appropriate economic path to take. This era may be coming to an end however. Observers of Argentina's political environment have suggested that the current opposition, if it won the presidency, would tamper with the current government's hailed economic program, but not fundamentally alter it. Despite its weaknesses, Argentina should still be viewed as a market with potential. The country has a relatively well-educated and modern population of 35.5 million people. In addition, its GNP is four times larger than Chile's, though on a per capita basis, it is only $9,500, significantly lower than Chile.

As is the case in Central and Eastern Europe, direct investment flows into California from this region are negligible. Given the current focus on privatization and inward attraction of FDI, combined with the low level of development of most companies in the region, it is unlikely that an office would be of much assistance in increasing these flows.

D. Central and Eastern Europe

Since the fall of the Iron Curtain in late 1989, most Central and Eastern European countries have been transforming their economies with differing success, from the command system under the communist regime to market economies and democratic political systems. The transition has not been easy and democracy has not yet been firmly rooted in many countries. The opening of these societies also unleashed previously suppressed ethnic hostilities as evidenced by the tragic war in Bosnia-Herzegovina. Some countries, however, have had great success and the region as a whole shows great potential for trade and investment growth.

This region ranks very high strategically. Current California offices in Europe do not have sufficient resources to provide service to California companies in Central and Eastern Europe. Demand for on-site assistance is also strong due to the multilingual nature of the region, the confusion created by dramatic economic transition and market inefficiencies due to the region's lack of experience in the international marketplace.

With a population of more than 59.1 million, the key economies of the region (Poland, Hungary and the Czech Republic) produce a combined GNP of more than $218 billion. In the coming years, domestic product numbers should rise significantly as these economies complete the difficult transition to a market economy and experience resulting efficiency gains and economic growth.

Regional opportunities in various market sectors such as energy, defense, environmental technology, communications, transportation and infrastructure development make the region an ideal market for key California high-tech and service sectors such as telecommunications, electronics and construction. The

recent admission of Poland, Hungary and the Czech Republic into the North Atlantic Treaty Organization (NATO) is a strong signal of the successful economic transformation of Central Europe and provides enormous opportunities for California defense industry firms. Early presence and activity in this region could pay substantial dividends as these markets mature. California firms have already lost significant ground to the Western Europeans despite the region's hunger for American products.

One benefit that Central Europe enjoys over Latin America is its relative political and financial stability. Financial markets are still in their infancy, and therefore stock market crashes are less likely to spread to the rest of the economy. In addition, the three most important countries of the region, the Czech Republic, Hungary and Poland, have been remarkably successful at reforming their economies (though still have much to do), and are becoming more and more integrated with Western Europe. These countries have made joining the European Union (EU) a national priority and top the list of the EUs expansion list. Like Latin America, Central Europe's focus on attracting inward investment makes it unlikely that there is much potential within the region for investment into California for the foreseeable future.

E. Western Europe

The principal strengths of the Western European markets are their maturity and sheer scale. The logic of opening an additional California Office of Trade and Investment in Europe would be based on these strengths. For example, the French and Italian markets are enormous. GDP in each totals more than $1 trillion. Collectively, the Western European markets rival the US market in size, affluence and purchasing power. Currently, the state of California operates two offices in Western Europe, one in London and the other in Frankfurt. London is Europe's principal financial hub whereas Frankfurt is Europe's largest trading center.

Compared to the markets in Asia and Latin America, the Western European markets are not as strategically viable. For instance, most of these markets are advanced industrialized countries and their respective business communities are multilingual and can generally speak English. In other words, demand for on-site assistance is considerably less in Western Europe than it would be elsewhere. Moreover, the markets generally function efficiently and the rules for conducting business transactions tend to be relatively transparent in comparison to markets in developing countries. Regardless, many Western European countries maintain significant barriers to trade with non-EU countries and language barriers do exist.

Of special interest should be France which continues to pose a stern challenge for California firms wishing to do business in that country, as evidenced by the inconsistency of export growth. As the largest nation in Europe geographically, France sits at the hub of the EU, a customs union with more than 350 million consumers. With a population of more than 58 million, France is home to the second largest consumer market in Europe with per capita income of $24,990. French GNP totaled $1.53 trillion in 1996 making it the world's fourth largest economy. France ranks as California's twelfth largest export market with total manufactured exports of $3 billion in 1997, primarily concentrated in high-tech sectors.

France is also a great source for both FDI and equity investment through existing large multinational corporations (MNCs), the Paris Bourse, Nouveau Marche (or New Markets) and other investment and venture capital groups. France is also a big importer of services, the fastest growing sector of California exports. France also ranks as the state's sixth largest foreign direct investor with French stock investment in California totaling $4.6 billion in 1995, directly supporting 31,600 jobs in the Golden State. Great opportunities for California in France include biotechnology, audiovisuals, information technology, energy, and telecommunications. Rather than opening an office in France, we believe the needs of the market could be met by hiring a consultant to assist with California companies attempting to do business in France.

The Netherlands appears to be the another viable location for a California foreign office within this region due to its high volumes of trade and investment with California and its proximity to the Scandinavian countries. Furthermore, with the exception of Singapore, the Netherlands is the highest ranking country in the economic model (at sixth place) where California does not have representation. Yet while the amount of trade between the Netherlands and the US seems to be high, it is estimated that more than 50 percent of goods exported to the Netherlands are transshipped to the rest of Europe. Therefore, it seems that with an additional person in either London or northern France, the California offices should be able to assist California firms that wish to export to the Netherlands and Scandinavia. The Netherlands is only a ferry-ride away from London and thus an entire new office in the Netherlands may not be a good allocation of limited resources. Also, as the quintessential free trading economy, exporting to the Netherlands tends to be an relatively easy affair.

Two other leading candidates in Western Europe for a new California trade office are Italy and Spain. Like France and the Netherlands, they too are large markets on the basis of economic factors. Both countries would enable California to offer services to California business in parts of Europe that are currently difficult for London or Frankfurt to support. Moreover, these markets would provide access to additional nearby markets. Of these two countries, Italy holds the larger and more developed market, in terms of aggregate economic output, per capita wealth and consumer base, with the greatest potential for promoting California trade and investment

F. Southeast Asia

Strategically, there is not a strong case for new offices in Southeast Asia for several reasons. Currently, California operates a satellite office in Indonesia and has received funding in the FY 1998-99 Budget to place a consultant in the Philippines. More significantly, though, is that the region has been in the stranglehold of a severe economic crisis since July 1997. Of the countries of Southeast Asia examined in this study, Malaysia, Thailand and Indonesia are experiencing recession. Due to poor weather in the Philippines and the fact that 22 percent of GDP depends on agricultural production, it is possible that the Philippines, too, may face a similar fate. Singapore appears likely to weather the storm, but will nonetheless grow at a slow rate due to severely restricted demand for its exports throughout the region.

But more important, the economic meltdown experienced by several countries (including Indonesia, which is going through the most dramatic economic collapse anywhere in the world in the last 50 years) makes it unlikely that those countries will become viable export markets for California for the foreseeable future. And since many Southeast Asian countries depend upon trade with other Asian countries, particularly with Japan which is also in a recession, it is likely that the region as a whole will prove disappointing as an export market for several years.

Despite the crisis, California cannot write the region off. Its medium- to long-term prospects are good, and, in fact, are likely better than before the crisis, since the crisis has forced many countries to engage in meaningful economic structural reform, making their economies more transparent. Indeed, before the crash, California shipped approximately 14 percent of its exports to ASEAN markets. While exports to the region dropped by 2.4 percent in 1997 and will drop significantly in 1998, by the following year, the pattern should ultimately reverse itself. Regardless, California still accounts for a remarkable 29 percent of total US exports to the region. A California presence in the region will give California companies one leg up on their competitors as foreign businesses move back into the region.

The top priority for any future California representation in the region is Singapore, which ranked second overall in our economic model and is the highest ranking country in which the State does not have representation. Home to the world's second largest container port, Singapore boasts one of the world's highest per capita incomes ($28,472 in 1996), with a GDP of $93.6 billion in 1996 and an average growth rate of 8.3 percent over the past five years. Singapore is a global leader in financial services, manufacturing and trade, and consistently ranks as one of the world's most globally competitive economies. As California's sixth largest export market ($5.6 billion in 1997), Singapore is strategically

the ideal location for an office because of its geographical location (proximity to Malaysia and Indonesia) and global reputation as one of the world's leading international business centers and entrepots. In addition to all of these factors, CTCA signed a Memorandum of Understanding (MOU) with Singapore in March 1998, to strengthen technological and business ties between the two economies.

G. East Asia

Until mid-1997, East Asia was an excellent export destination in that the area had been the fastest growing region for California exports for several years. With economic slowdown, however, exports plummeted at an alarming rate. In four of the five countries, import of California goods dropped precipitously. With the exception of China, where California exports grew by 28.4 percent in the first half of 1998, California exports to Japan, Taiwan, Korea, and Hong Kong experienced negative growth of -15.2 percent, -6.6 percent, -40 percent, and -10.9 percent, respectively. In spite of the drop, however, Japan, Taiwan, Korea, and Hong Kong remain among the State's top 10 export markets, while China is number 14.

Despite rapidly decreasing exports, all five of the East Asian countries should be considered excellent markets in the long run. Neither Hong Kong nor Taiwan have serious known structural problems, and China's slow approach appears to be working. South Korea has recognized its deficiencies and implemented extensive reforms to fix the problems. Finally, Japan, despite its unwillingness to tackle the structural crisis in its financial market, is still easily the world's second biggest economy, and, when it finally emerges from its recession, will remain the State's most important export market and foreign direct investor. Finally, it is important to consider that between 1994 and 1997, California exports to the 5 countries increased by 34.7 percent, or $10 billion.

In addition to serving as export markets, Japan, Hong Kong, South Korea, Taiwan and China are significant investors in California providing for a combined $38.2 billion in stock investment in 1995, directly supporting 168,600 jobs in California. Nonetheless, with offices in Tokyo, Hong Kong, Taipei, Seoul, and now in Shanghai, the region is well-covered and there is no need to place new offices in the region for the foreseeable future.

Part III: Conclusions and Observations

The current focus of the International Trade and Investment program is to consolidate our current resources and focus on the strategic development and integration of our new offices. Although we are not recommending the addition of any new offices this year, we will continue to update and improve the Foreign Office Location Study on an annual basis as a way of evaluating our existing operations and keeping in touch with the development of world markets viewed from a California perspective.

Economic factors indicate that the most viable regions for trade and investment offices in the near future are Singapore and western Europe, specifically the Netherlands and France. Our economic model shows that these countries have the greatest potential as consumers of California products. A review of export results since 1992 (Table 2) confirms the conclusion: with the exception of 1996, the Netherlands has registered very rapid increases in California imports every year. Singapore showed outstanding growth before the Asian crisis slowed its economy. France has logged steady, albeit slower increases. Furthermore, all of these countries are strong sources for foreign direct investment into California. The Netherlands ranks second only to Japan in FDI into California; France is the State's sixth largest foreign investor; and Singapore, despite it's small size, is the fifth largest Asian foreign investor in California.

Table 2: California Exports to Key Markets						
Importing Country	**% Incr 1992-93**	**% Incr 1993-94**	**% Incr 1994-95**	**% Incr 1995-96**	**% Incr 1996-97**	**Average**
Netherlands	2.9	32.7	17.2	-26.6	42.4	13.7
Singapore	19.5	5.4	30.8	16.2	-4.2	13.5
France	0.9	8.2	-5.2	3.19	3.87	2.2

For economic reasons, California currently maintains several offices in East Asia, Southeast Asia and Europe. In contrast, according to strategic factors, the most appropriate regions for new trade and investment offices are Latin America and Central and Eastern Europe. These markets are generally not as large, nor do they have the economic depth and diversity of the East Asian and European markets, but given their histories of being small players in terms of international trade, companies have less experience in exporting to those countries, and hence a greater need for assistance.

Within the Latin America, the most viable locations for future foreign office expansion are Chile and Argentina. Within Central and Eastern Europe, Poland and Hungary rank at the top of potential sites for future California offices of trade and investment.

In our assessment, based on the economic and strategic factors we have identified and taking into account existing foreign office resources, Eastern Europe, South America and Western Europe surpass East Asia and Southeast Asia as locations that will best serve the long-term needs of California.

Part IV: Country Reports and Statistics

A. The Americas

1. Brazil

Background

With a population of 161.3 million inhabitants and a 1996 GNP of $709.5 billion, Brazil is by far the largest country and economy in Latin America, and is the eighth largest economy in the world. The country is relatively insulated from the rest of Latin America due to its language, its cultural differences and the resource rich Amazon jungle to the west coupled with the country's main urban centers along the eastern Atlantic coast.

Historically, Brazil's leading trading partners have been the US, Germany and Japan. With the implementation of MERCOSUR (known in Brazil by its Portuguese initials MERCOSUL), Brazil is fostering a much stronger regional leadership position which may change the dynamics of Brazilian trading in the next century. Brazil now exports close to 9 percent of manufactured goods to Argentina. The MERCOSUR pact represents a market of more than 200 million people providing enormous opportunities for joint manufacturing, sourcing and trade. MERCOSUR's impact on the region is already being felt—currently, 90 percent of all MERCOSUR trade is free and trade has increased from approximately $3.6 billion in 1990 to $16.9 billion in 1996. MERCOSUR incorporated Chile as an associate member in 1996 as well as Bolivia in early 1997.

Brazil is a federal republic with 26 states and a federal district, Brasilia. The government is divided into three branches of power (executive, legislative and judicial) to provide checks and balances. The president appoints his own cabinet and is elected for four years with the right to reelection for another 4-year term. In the past, the country's government has been fragmented by the sheer number of political parties, 15 currently represented in Congress, and a lack of consensus. A significant factor in current President Fernando Henrique Cardoso's election to president in 1995 was his successful implementation of the Real stabilization plan during his time as finance minister. Although Congress approved the Real Plan, it did not pass the constitutional reforms necessary for long-term economic stability.

California and US Ties to Brazil

California's exports to Brazil have been unpredictable, bouncing from $546 million in 1991 to $843 million in 1992, and then dropping again to $654 million in 1993. In 1996, California's exports to Brazil jumped for the third consecutive year, increasing by 11.3 percent to total $1.26 billion, but dropped by 3.4 percent to $1.21 billion in 1997. This followed export growth of 25.4 and 42.4 percent in 1994 and 1995, respectively. Brazil is California's twentieth largest export market, just behind Ireland and ahead of Switzerland. The primary sectors driving California export growth to Brazil have been electronics and electrical equipment and transportation equipment. California is benefiting from MERCOSUR with a 5.2-percent increase in exports to the region in 1997 totaling $2.2 billion.

In 1997, the US trade surplus with Brazil rose for the third consecutive year to $6.3 billion, a shift from a $540 million deficit in 1994. In 1997, Brazil ranked as the eleventh largest US export market. Exports grew by 25.3 percent to $15.9 billion. This followed an 11-percent increase in 1996. Despite surging investment from Asia and Europe, the US is by far the largest foreign investor in Brazil. In 1996, US FDI in Brazil increased 10.4 percent to $26.2 billion or 34 percent of total investment. Seven of Brazil's 35 largest businesses are American and US oil companies, consumer products and fast food franchises are among Brazil's fastest growing and most profitable companies.

According to the US DOC, the top ten prospects for US exports to Brazil are in the following sectors:

Sector	Estimated 1998 Market Size
Computer Hardware and Peripherals	$ 6,240 million
Oil and Gas Field Machinery and Services	$ 5,330 million
Computer Software	$ 1,750 million
Medical Equipment and Supplies	$ 3,750 million
Franchising	$17,100 million
Aircraft and Parts	$ 1,010 million
Telecommunications	$ 8,010 million
Pollution Control Equipment and Services	$ 1,853 million
Automotive Parts and Service Equipment	$18,600 million
Cosmetics and Toiletries	$ 5,410 million

Brazil and the US historically have maintained good relations. The US was the first country to recognize Brazil's independence in 1822. During the 1950s and 1960s, the US extended significant economic assistance through the US AID and the Peace Corps in which thousands of Brazilians were trained by the US government in areas of technology and science. The US is Brazil's most important commercial partner and accounts for 20 percent of its trade. Brazil is the second largest destination for US exports in Latin America, after Mexico.

California and Brazil have had limited contact due to geographical distance, East-West trading patterns, and the Brazilian government's protection of its economy. In recent years, however, major Californian and American companies have increased their presence in Brazil significantly. In 1996, 140,000 of the 848,453 Brazilian tourists traveling to the US, visited California.

As the Brazilian economy continues to grow and per capita income rises, the potential for investment by California companies is on the rise. Bell South paid $2.5 billion for the cellular license for Sao Paulo in July 1997, the most expensive cellular phone license ever awarded. Currently, there are only 12 phones per 100 people and a backlog of 1.8 million orders for phones and service. As the demand for new technology such as cellular phones and computer equipment rises, California's compatible high-tech sectors will be able to capitalize on the fourth largest consumer market in the world.

Economic Policy Framework

Brazil's economic policy framework was fashioned in 1993 by then-Finance Minister and now President Fernando Cardoso in his "Program of Immediate Action," a policy aimed at controlling inflation by cutting government expenditures, raising new taxes, strictly enforcing state debt payments, exerting greater control over lending, and accelerating the privatization of state-run enterprises. This signaled a radical shift from Brazil's more traditional economic strategies which focused on the construction of domestic industry and the substitution of imports for Brazilian-made goods, a strategy known as Import-Substitution Industrialization (ISI). Cardoso's plan brought a reduction in inflation, stability in the new currency, and inflows of foreign capital reflecting investor confidence. The GDP grew at a healthy pace and consumer spending blossomed due to this newfound economic confidence in the country. The result was Cardoso's election as Brazil's president.

The critical moment for Brazil's current economic boom came with the Real stabilization program of the summer of 1994. On July 1, 1994, the "Real" was introduced as Brazil's new currency. Since then, inflation has declined from an annual rate of 5,000 percent in 1993 to 10 percent in 1996 and 4.5 percent by mid-1998. The initial effect of the Real Plan was a 15-percent increase in income for salaried workers which generated an explosion in domestic demand. GDP growth reached 6.4 percent in 1995, but slowed to 3.0 percent in 1996 and a mere 1.1 percent in 1997. Some of the key growth sectors driving Brazil's development include agricultural products (crops), industry (construction and manufacturing) and services (transport).

There are concerns regarding President Cardoso's ability to implement his economic reforms in light of an uncooperative legislature. His biggest hope for fiscal reform lies in two constitutional amendments presently before the Congress. The first would allow the government to fire workers when payroll expenses exceed more than 60 percent of revenues. This was postponed until after the October 1998 elections. The second would reform a public-pension system with spending totaling $16 billion in 1996. Both amendments were introduced into Congress two years ago and are finding unstable ground to receive the required 60 percent approval from both houses. President Cardoso is also relying on privatization for economic liberalization which has met opposition within the government.

While some privatization is being blocked, President Cardoso has been successful in beginning to sell off some state-owned businesses. The most recent example was the July 1998 selloff of 12 pieces of the state-owned telecommunications company Telebras. This sale brought in $18.9 billion, 64 percent more than the government had asked for. Over the next three years, the federal government and states will sell assets, such as oil, gas and electricity businesses.

While Brazil has dramatically transformed its economy, there still remain serious barriers that must be recognized. Brazil continues to use tariffs as the primary instrument for import regulation. For 1997, the average tariff was 13.8 percent and the median tariff rate was 14 percent, and increase over the 11 percent rate of 1994. The rise in import tariffs was in response to an import surge resulting in large monthly trade deficits that continue to grow in the early stages of 1998. The trade deficit in 1997 totaled $8 billion, $2.5 billion more than the previous year. The higher tariff levels on consumer durable goods such as automobiles and toys was to be eliminated in April 1996, but upon further review it was extended to 2000. Despite recent restrictions, Brazil is opening itself to foreign goods as never before in recent history presenting California exporters with a host of new market opportunities.

In the services sector, however, lack of administrative transparency and arbitrary application of laws still pose significant barriers to US exports. Many services in the areas of petroleum, electricity and mining are severely restricted. Financial services, particularly the insurance industry, are impeded by limitations on foreign investment, market reserves, and requirements that parastatal firms use only Brazilian carriers.

Import duties on computers and related equipment remain exceptionally high, averaging around 35 percent as compared to the average import duty of 13.8 percent. Local preference in this industry is also reflected in tax reductions and government procurement preferences. California, a seedbed of innovation in this field, views this with extreme concern.

Discriminatory government procurement is a significant barrier to US exports to Brazil. The government is not a signatory to the GATT GPA and applies "Buy Brazil" policies to give preferential treatment to local firms where competing goods are "equivalent" in terms of price, quality, etc. In 1993, Brazil adopted new procurement legislation requiring open bids and selection based on the lowest price. However, new regulations regarding local content requirements were subsequently introduced regarding procurement related to telecommunications, computers and digital electronic goods and services — all areas in which California is a world leader. In addition, Brazil has imposed barriers to the import of computer software and hardware, giving preference to local firms for government procurement.

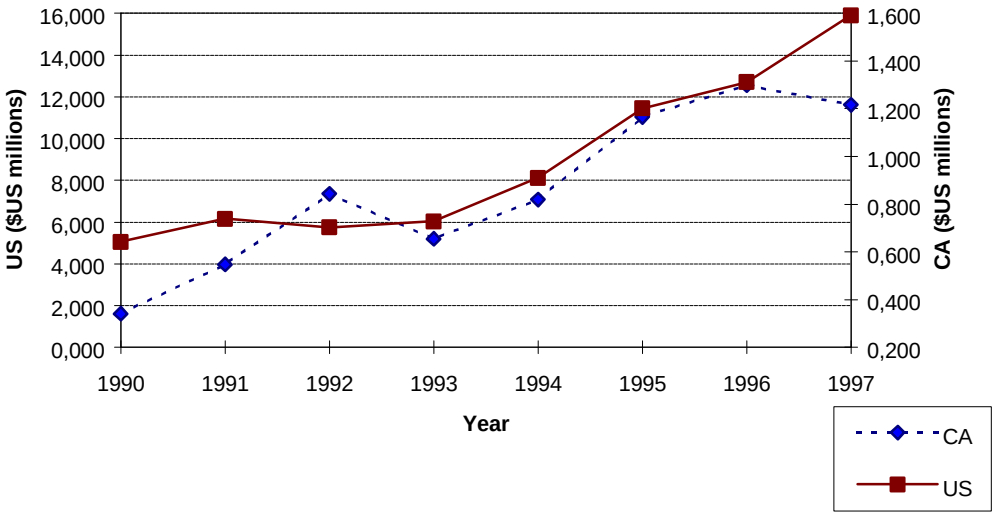
Barriers to investment in Brazil are considerable. Foreign investment is prohibited in certain "strategic industries" such as petroleum production, refining, transportation, public utilities, media, real estate and shipping. In addition, the Brazilian constitution prohibits foreign capital participation in land, river, coastal, maritime and internal air transportation. Foreigners are also barred from owning land in certain coastal and border regions for national security purposes.

Despite improvements in recent patent protection for certain products, biotechnology is still excluded from patent protection. While Brazil's current copyright law conforms to international standards, its enforcement is inadequate. The recent industrial property law establishing specialized intellectual property courts should provide some relief for copyright owners. Trade losses from piracy of computer programs and entertainment software is increasing and estimated at $666.2 million for 1997.

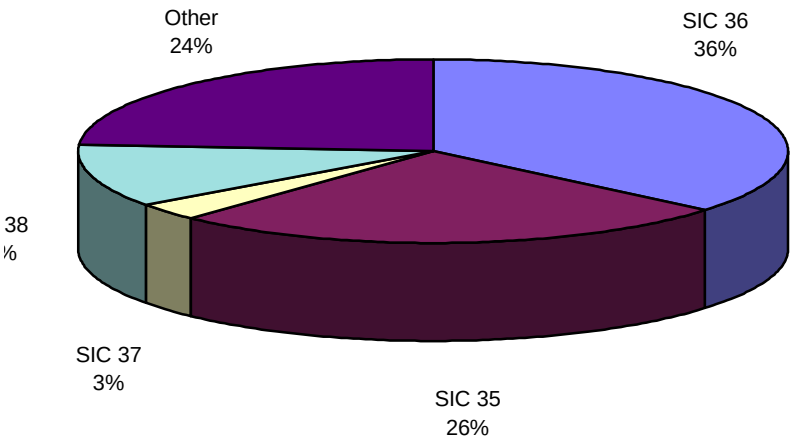
Problems also exist in protection of trademarks and trade secrets. The bills discussed in the previous program are designed to try and address these deficiencies.

Statistical Appendix

Total US and CA Exports to Brazil: 1990-1997



High-Tech Exports to Brazil as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:

SIC 35: Industrial machinery and equipment including computers.

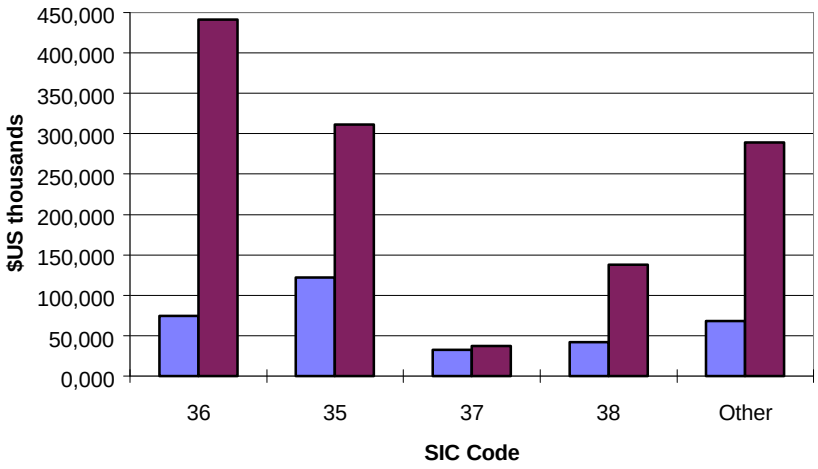
SIC 36: Electronics and electronic equipment not including computers.

SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA

CA High-Tech Exports to Brazil by Industry: 1990 vs. 1997



HIGH-TECH SECTORS:

SIC 35: Industrial machinery and equipment including computers.

SIC 36: Electronics and electronic equipment not including computers.

SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

2. Chile

Background

Chile is noted as one of the most politically and economically stable states of Latin America. This perception of Chile is accentuated by its "associate" status in the Southern Cone Common Market (MERCOSUR by its Spanish initials, or MERCOSUL in Portuguese), a free trade agreement between Brazil, Argentina, Uruguay and Paraguay and its leadership role in the Free Trade of the Americas negotiations. Chile has enjoyed 14 years of uninterrupted growth. Gross National Product (GNP) in Chile reached $70.1 billion in 1996, with an annual average growth rate of 7.7 percent between 1990-1997 and a per capita income of $11,700 (Purchasing Power Parity). GDP growth was 7.4 percent in 1996. However decreasing copper prices (down to 74 cents per pound from $1.19 in mid 1997), interest rate hikes and planned budget cuts should cause economic activity to slow for 1998-1999. Inflation has hit the remarkably low (by Latin American standards) 5.3 percent.

According to Chilean President Eduardo Frei, Chile's overriding foreign policy aim is to "deepen the internationalization of the Chilean economy, forging alliances and pacts that will lead [to Chile's] full incorporation into an ever more interconnected world."

Chile has a strong historical tradition of democracy. The only aberration in its modern history came with the bloody military coup against President Salvador Allende's democratically elected socialist government in 1973. From 1973 to 1989, the government was led by the repressive military dictatorship of General Augusto Pinochet. The early years of the Pinochet regime were marked by serious human rights violations. However, the military regime proved to be a positive influence on the economy, helping to move the country towards a very stable free-market economy.

In September 1980, Chile's current constitution was approved by a two-thirds majority in a national plebiscite. In 1988, the constitution was further amended, easing the constitutional reform process, expanding the number of senators and reducing the role of the National Security Council. In 1993, Christian Democrat Eduardo Frei (the son of Eduardo Frei, Sr., the Chilean president in the 1960s), heading a center-left coalition called the *Concertacion*, was elected president and began a six-year term that ends in the year 2000. The congressional election in December 1997 was a setback, albeit not a significant one, for the ruling *Concertacion*. Nonetheless, reform should continue at the same slow but steady pace as before.

Throughout the twentieth century, Chilean politics have been divided rather evenly between the political right, center and left. Since the transition to democracy, the political center has gained strength at the expense of the extremes, though the 1997 elections in which victories by the right-wing opposition and left-wing elements of the *Concertacion* seem to reverse this trend. Regardless of politics, a remarkably broad consensus exists among all political parties about the importance of maintaining a democratic political system and a free-market economy. The key differences between the governing coalition and the opposition revolve around strategies to address social issues such as poverty, health care, education, and infrastructure.

California and US Ties with Chile

In 1997, California exported $400 million in goods to Chile, a 21-percent increase over 1996. Chile is our thirtieth largest export market, behind India and ahead of New Zealand. The bulk of California's exports to Chile are industrial machinery and computer equipment. Since 1991, California's exports to Chile have grown by 208 percent from $129.6 million in 1991, and now account for 9.1 percent of total US exports to Chile. Opportunities abound in the environmental and hydroelectric sectors for California companies as Chile expands in both of these sectors. The recent creation of a Chilean environmental protection agency will benefit California companies specializing in environmental

technology. Due to technological constraints, Chile cannot maintain its own domestic sector and must rely on foreign capital and investment.

The US ran a trade surplus with Chile in 1997 amounting to $2.1 billion, an increase over the $1.9 billion surplus in 1996. The US is the largest destination for Chilean exports just ahead of Japan and is by far Chile's largest source of imports. Since 1987, US exports to Chile have increased over 450 percent, from $796 million in 1987 to nearly $4.4 billion in 1997. US exports to Chile increased 5.9 percent in 1997 making it the twenty-ninth largest US export destination, ahead of Indonesia and just behind Argentina. US FDI in 1996 was $6.7 billion, an increase of 14.7 percent, and is concentrated in the financial and manufacturing sectors.

Despite its economic strength, Chile is only the thirtieth largest export destination due to the small size of the domestic market with a population of only 14.4 million. The bulk of US exports to Chile are in industrial machinery and transportation equipment which is comprised of everything from engineering plants and equipment to computers and motor vehicles. According to the US DOC, the top prospects for US exports are:

Sector	**Estimated 1998 Market Size**
Railroad Equipment	$ 150 million
Building Materials	$ 4,700 million
Mining Equipment and Supplies	$ 920 million
Electrical Power Systems and Equipment	$ 776 million
Food Processing and Packaging Equipment	$ 307 million
Pollution Control Equipment	$ 750 million
Travel and Tourism Services	NA
Medical Equipment	$ 210 million
Telecommunications	$ 838 million
Construction Equipment	$ 940 million

California companies are extremely competitive in nearly all of these sectors.

With Chile's return to democracy in 1990 and the 1993 election of Eduardo Frei, an avid advocate of free trade, US-Chilean relations have reached their closest levels in history. At the December 1994 Summit of the Americas in Miami, the leaders of the US, Canada and Mexico formally asked Chile to join NAFTA. NAFTA accession talks with Chile began in May 1995, but bogged down over US congressional opposition to extending free trade agreements. Chile signed a free trade agreement with Canada in November 1996, involving both goods and services that included side agreements on environmental and labor standards similar to those in NAFTA. The agreement may facilitate Chile's accession to NAFTA in the future, though the Chileans themselves, like most Latin Americans, have no interest in negotiating with the US unless the President has fast track negotiating authority.

Although California has a significant population of Hispanic origin (25 percent), very few are of Chilean extraction. Despite this lack of familial connections, a geographical distance and a relatively undeveloped trading relationship, Chile and California have an opportunity to develop a strong relationship as California shares a great deal with certain regions of Chile in terms of climate, topography and agricultural products. There is an additional link between Chile and California established by the tourism industry. In 1996, 33,000 or 21 percent of the Chileans visiting the US visited California.

Economic Policy and Framework

Chile's economic expansion has now moved into its second decade. After the collapse of the Chilean peso in 1982, in which nearly one-quarter of Chilean workers lost their jobs, the government began to

carry out policies to strengthen the private sector and look outward for new markets. It granted tax breaks to companies that reinvested their profits rather than paid out dividends. Perhaps most importantly, it opted to allow the peso to be maintained at an internationally competitive level, rather than pegging it to the dollar. Between 1984 and 1991, the economy recovered and grew at an average rate of 6 percent.

This period was marked by privatization of state-owned enterprises and the phasing out of austerity to boost economic activity. Today, Chile's economy is predominately in the hands of private business. In 1994 and 1995, the Frei Administration sold the remaining government-held interests in airlines, the state utility company, shipping, and radio. The bulk of investment is earmarked for construction of a motorway for the central part of the Pan-American highway. Chile also plans to modernize its antiquated railroad system. In general, major new highway projects and port and airport infrastructure are being built under a concession program. The only significant government-controlled businesses are the railroads and CODELCO, the world's largest copper company which the government has stated it will not sell. But, it is considering selling CODELCO's 49-percent stake in El Abra copper mine.

One of the key factors behind the continued economic success has been the dramatic growth in the export sector. The diversification of Chile's export base and the reduction in its foreign debt relative to GDP have made Chile a model for Latin American economic transition from a protected, state-directed economy into a liberalized, free-market system. Both the import and export sectors have increased threefold in the past ten years and were expected to continue to grow at an 8- to 10-percent clip for the rest of the century, though the current Asian crisis calls this prediction into question. The total import market was $18.2 billion in 1997, and should grow to $22 billion by 1999. Chile has the most favorable tariff rates in Latin America. The uniform tariff rate was lowered from 15 to 11 percent in June 1991. The government is proposing to cut this rate by 3 percentage points to 8 percent, but it is considering opposition proposals for a gradual reduction over two to three years to 5 percent.

Chile is involved with several free trade agreements. In addition to being a member of the WTO, Chile has free trade agreements with Mexico, Colombia, Venezuela, and Canada; is a member of the Latin American Free Trade Association; is one of two Latin American countries to belong to APEC; is negotiating free trade agreements with Peru and Ecuador, and is a leader in the negotiations of the Free Trade of the Americas, hosting the April 1998 Summit of the Americas in Santiago.

On June 26, 1996, Chile became an associate member of the MERCOSUR, giving Chile free-trade benefits with the MERCOSUR countries without the binding responsibility of full membership. With the addition of Chile, MERCOSUR has access to both the Pacific and Atlantic, a market of 227 million people and a combined GDP of $1.1 trillion. On October 1, 1996, Chile began lowering tariffs on the majority of traded goods with MERCOSUR countries, starting with a 40-percent tariff cut on all production and gradually eliminating all duties in eight years. Chile is currently not interested in full membership in the organization due to what it sees as MERCOSUR's exceedingly high common external tariff, on average 14.3 percent, but increasing to a maximum (with some exceptions) of 23 percent.

But all may not be well for Chile as the Asian crisis may prove difficult. In 1997, 33 percent of Chilean exports went to Asia. By mid-1998, those sales slumped by 11 percent. The Chilean peso dropped 9 percent between October 1997 and June 1998 which may help exporters, but could also signal the beginnings of a speculative attack. This will exacerbate the difficulties that many Chilean firms with outstanding debts in US dollars are beginning to feel.

Despite Chile's free-market orientation, there are still barriers to trade. Chile has an 18-percent value-added tax (VAT) which is applied to the cost in freight (CIF) value of an imported product in addition to the 11-percent import duty. Despite promises to reduce the VAT to 17 percent with further scheduled reductions, it remains to be seen what new tax legislation will be promulgated by the new congress. Chile's principal non-tariff barrier is the import price band system levied in addition to the

11-percent import tariff for certain agricultural commodities such as wheat, wheat flower, vegetable oils, and sugar. The system is designed to maintain domestic prices for these commodities within a predetermined band, delaying the impact of changes in international market prices on Chilean producers and consumers.

Chile is probably the best investment location in all of Latin America and ranks among the most enticing in the world. Foreign investment is highly encouraged by all main political actors in Chile. The barriers to foreign investment in Chile are limited. Although invested capital may not be repatriated for one year, profits may be repatriated immediately. There is no tax treaty between Chile and the US, so profits in Chile can be taxed by both countries, though the Internal Revenue Service (IRS) usually grants credit for taxes paid in Chile. Also, foreign investors are restricted to domestic borrowing in order to prevent a distortion of local financial markets.

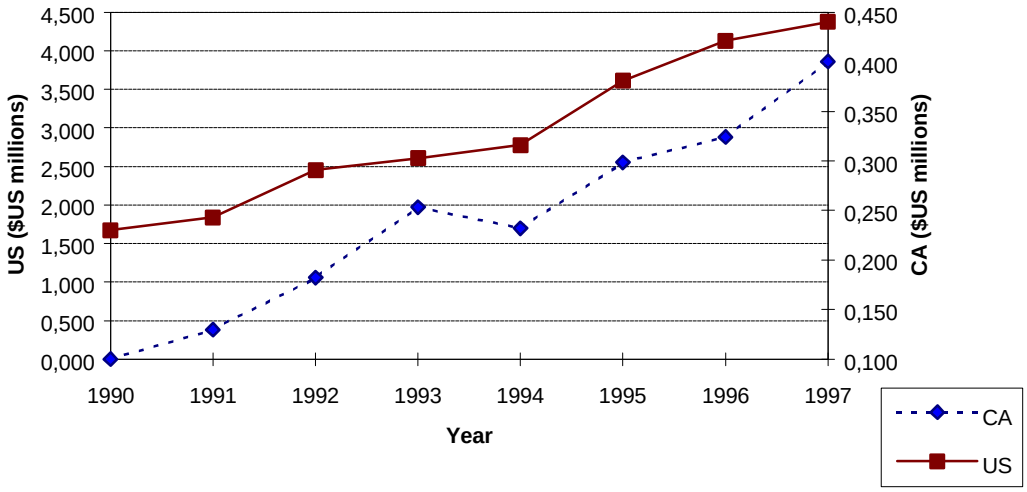
The foreign investment regime was enshrined by Decree Law 600 of 1976, and has remained relatively unchanged. Chile's foreign investment policy is guided by three main principles: equal treatment of local and foreign investors, free access to all markets and economic sectors, and minimal government interference. The nation also has a stable legal and regulatory environment. The result is that Chile continues to attract record foreign investment inflows. In 1996, total foreign investment in Chile was $4.59 billion, making Chile's foreign investment/GDP ratio one of the highest in the world at around 9 percent. Chile is also very active abroad, investing $1.2 billion in 1996, reaching an accumulated total of $4.2 billion since 1991.

Government procurement policies in Chile favor domestic producers. The Chilean government has a "Buy Chile" policy only when conditions of sale of locally produced goods are equal to or better than those of equivalent imports. In practice, though, given that many of the components for infrastructure development are not produced in Chile, purchasing decisions by most state-owned entities are made among competing imports. For instance, in top import sectors such as pollution control equipment, computers and peripherals, railroad equipment, and telecommunications equipment, the domestic competition is determined by the US DOC to be "very little" (US DOC Marketing Report). Requests for bids are published in local newspapers.

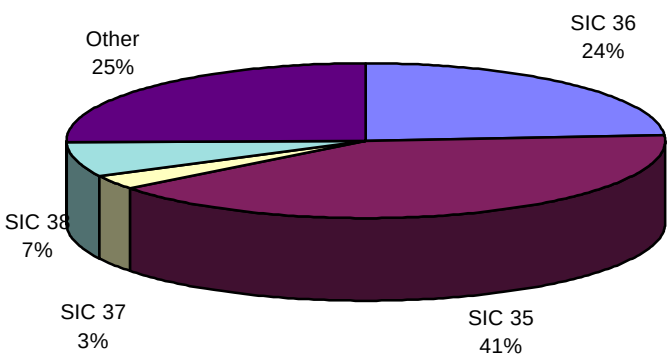
As is the problem throughout Latin America, lack of patent and intellectual property right (IPR) protection serves as an effective barrier to trade with and investment in Chile. Despite a 1991 law protecting pharmaceutical patents, many of the terms of the law are inconsistent with international standards. Local companies are not prevented from pirating foreign pharmaceutical patents. Chile has stepped up its enforcement of piracy of computer software, but this practice remains significant. Pirated goods constituted 60 percent of the software market in 1995, with losses estimated at $74 million. On the encouraging side, on April 2 1998, Warner Brothers and CD Comics won a court order for the destruction of 250,000 unauthorized toys, signaling a hardening in the stance of the Chilean authorities. Chile is a member of the World Intellectual Property Organization (WIPO). Its standards are largely compatible with international norms with a few exceptions.

Statistical Appendix

Total US and CA Exports to Chile: 1990-1997



High-Tech Exports to Chile as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:

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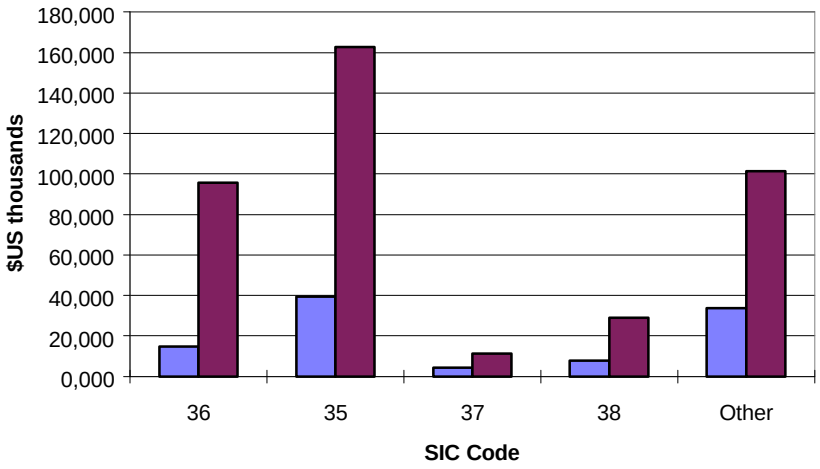
SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

CA High-Tech Exports to Chile by Industry: 1990 vs. 1997



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3. Argentina

Background

Argentina is the third largest economy in Latin America, behind Brazil and Mexico. It has a GNP of $290 billion and a per capita income with the purchasing power of $9,530, making it an upper-middle income country. Real GDP growth in 1996 reached 4.3 percent, a great improvement over 1995 which saw a *contraction* of 4.6 percent.

Argentina's regional ties are progressing rapidly. The Southern Cone Common Market (MERCOSUR, or MERCOSUL by its Portuguese initials) trade agreement between Brazil, Uruguay, Paraguay and Argentina is becoming the most important coalescing factor for South American economic integration. With the admission of Chile in June 1996 and Bolivia in January 1997 as associate members, the MERCOSUR market now has a population of 227 million, access to both the Pacific and Atlantic Oceans, and a combined GDP of $1.1 trillion. Progress has also been made on forging a trade agreement between MERCOSUR and the EU, with the goal of forming a free-trade area between the two customs unions by the year 2005. It is questionable, however, if negotiations will be successful due to South American disagreements with EU agricultural policy. Indeed, on July 8, 1998, talks between the two unions suffered a serious setback over this very issue.

MERCOSUR's greatest impact has been on trade and investment in Argentina and Brazil. Argentina, originally fearing a poor competitive position due to an overvalued peso, saw its exports to other MERCOSUR countries rise 63 percent, from $2.1 billion in 1991 to $3.4 billion in 1993. In 1996, exports rose by an additional 17 percent. Brazil accounts for over 27 percent of Argentina’s exports. In 1996, Argentina recorded a $2 billion trade surplus with the MERCOSUR member countries. This was primarily due to continued stabilization and growth of the neighboring Brazilian economy for Argentine imports. In 1998, however, growth in exports has stopped due to lower commodity prices, the rise of the dollar (to which the Argentine peso is pegged one-to-one), and stagnation in Brazil, Argentina’s biggest export market.

Total MERCOSUR trade reached $16.9 billion in 1996, compared to just $3.6 billion in 1990. Although 90 percent of trade between the MERCOSUR partners is now tariff free, the WTO has formed a working group with MERCOSUR to examine the consistency of MERCOSUR with the WTO rules. Member countries have agreed to phase in the common external tariff by the year 2006 on all goods traded and have agreed to be rid of automotive industry import quotas by the year 2000 (Foreign Trade Barriers, p. 10).

The structure of the Argentine government is similar to that of the US with a separation of executive, legislative and judicial branches. The president and vice president serve for four-year terms and can serve for two consecutive terms. The current president Carlos Menem was first elected in 1989 to succeed Raul Alfonsin, and then reelected in 1995. Although he denies that he wants a third term, Menem supporters are trying to have the constitution amended to permit Menem to run again. The supporters base their argument on the fact that when Menem originally became president, he was elected to a single six-year term and the constitution was changed since then. However, if his supporters fail, Menem can legally run for office again for the 2003 presidential election.

California and US Ties with Argentina

California's exports to Argentina more than tripled between 1991 and 1997, from $167 million to $527 million. The bulk of these exports were in transportation equipment, industrial machinery and computer equipment, and electronics and electrical equipment. Argentina ranks as California's twenty-fifth largest export market, behind Russia and ahead of Israel. California exports to the MERCOSUR market grew 5.19 percent in 1997 to $2.2 billion. As Argentina continues its economic growth focusing on export development, its imports of capital goods will continue to grow, thereby creating numerous opportunities for California exporters of these goods and services. The relatively untapped MERCOSUR market promises continued growth for California companies as consumer buying continues to escalate.

US exports to Argentina have increased significantly over the last ten years from $1 billion in 1987 to $5.8 billion in 1997, making it the United States’ twenty-fourth largest export market. The largest export sectors are high-tech: industrial machinery, computer equipment, electronics, electric equipment, transportation equipment, and precision

instruments. In 1997, the US trade surplus with Argentina was more than $3.6 billion, an increase of $1.6 billion over 1996. US FDI in Argentina rose 7.5 percent from 1995 levels to reach $8.1 billion in 1996. FDI is concentrated primarily in the manufacturing, finance and petroleum sectors.

According to the US DOC, the top ten prospects for exports are in the following sectors:

Sector	Estimated 1998 Market Size
Travel and Tourism Services	$3,565 million
Franchising Services	$ 950 million
Electric Power Generation and Transmission Equip.	$ 805 million
Medical Equipment	$ 440 million
Telecommunications Equipment	$2,500 million
Airport and Ground Support Equipment	$ 133 million
Construction and Building Materials	$1,190 million
Packaging Equipment	$ 299 million
Pollution Control Equipment	$ 30 million
Computers and Peripherals	$ 888 million

Most of these categories are compatible with California's comparative advantages in tourism and high-tech industries.

Since the restoration of democracy in mid-1983 and the successful democratic transition of power to President Carlos Menem in 1989, relations between the US and Argentina have improved. With President Menem's pro-US foreign policy emphasizing a support for democracy and the promotion of international trade, US-Argentine relations are now quite extensive.

Besides trade, California has other ties to Argentina. California and Argentina have cultural links based on Spanish colonization, European immigration, and a population of Hispanic origin. Only a small percentage of California's Hispanic population, however, are of Argentine extraction. Argentine travel and tourism are ranked by the US DOC as the top growth sector for US exports to Argentina. According to a California Division of Tourism study, 52,000 of the 412,581 Argentines who traveled to the US in 1996 visited California. Argentina maintains representative consulates in Los Angeles and San Francisco. With developing commercial ties, Argentina and California will become more closely linked.

Economic Policy and Framework

The political and economic priorities of Argentina since the mid-1980s - democratic transition, the opening of the economy to the rest of the world, stabilizing the exchange rate, lowering inflation and increasing exports - have yielded excellent results for the country. Since 1989, inflation has been reduced from 5,000 percent to 0.3 percent in 1997. This is largely the result of the "Convertibility Law" which pegs the peso to the dollar. The peso was tied to the dollar at a one-to-one ratio, restricting the domestic money supply to the level of foreign-exchange reserves. Investors have become more confident with "convertibility" and investment and exports are leading economic growth.

In recent years, the fertile land in the Argentine Pampas has nearly doubled, creating huge growth in the agricultural and processed food sectors. In fact, the 1997-98 harvest reached a record 61 million tons. Unfortunately, falling commodity prices will offset much of this gain. Investment and better technology has produced a large increase in agricultural exports and economists say Argentina is becoming one of the world's most dynamic farm economies. Farmers have also started to plant more profitable products, such as garlic, fruit and olives. Agricultural production accounts for about 60 percent of export revenue.

Along with growth in agriculture, the oil and gas, mining, hydroelectricity and nuclear power industries have seen substantial growth due to economic liberalization. Oil and gas output has more than doubled, attracting foreign investment in petrochemicals. Due to a new mining code, foreign investment has led to significant growth in copper and gold. Mining firms expect exports to reach $1.8 billion by 2000, up from only $30 million in 1996. In 1994,

President Menem initiated an ambitious energy program including the opening of 20 hydroelectric generators. The country has also created the most advanced nuclear power program in Latin America. Currently, 13 percent of Argentina's energy needs are generated from nuclear power plants.

Despite economic growth, efforts to enhance Argentina's competitiveness through tariff reductions and an easing of burdens on business has resulted in the highest public-sector deficit since 1991. In order to close the gap, the Argentine government wants to increase the tax base by eliminating loopholes. Another tax reform objective is to shift the tax burden from payroll taxes to income or profit taxes and a VAT.

The Asian financial crisis presents the clearest challenge to the Argentine economy, and some have likened it to the Mexican peso crisis of 1994, an event that caused the economic contraction of 1995. However, the Argentine financial system is much stronger now than in 1995. In addition, the increasing presence of foreign banks, as well as tougher capital and liquidity requirements, has greatly diminished the risk of a run on the banks.

Although GDP increased by 4.3 percent in 1997, independent economists expect a much slower growth rate for 1998 and 1999, and the current economic slowdown seems to confirm their point. Although continued reforms are needed, the inter-election period of 1998 that Menem expected for policy reform has not materialized due to both an internal struggle within the *Justicialista* Party between he and Duhalde, the governor of the Buenos Aires province, and the new political alliance between the *Union Civica Radical* and *FREPASO* parties. This premature start of the 1999 presidential elections has killed hopes for continued progress. A liberalization of the labor market is out of the question as the *Justicialistas* depend on the support of trade unions which oppose reform in that sector. Given the *Justicialista's* political liability of a 13.7-percent unemployment rate (itself a big improvement over 1996), most expect the *Alianza* to win. Nonetheless, these observers also expect no more than tinkering with Menem's reforms if that coalition wins, and not a rejection of them.

The policies of "Cavallonomics," led by former Finance Minister Domingo Cavallo, continue to move Argentina in the direction of a more liberal trade regime under the auspices of the new Finance Minister Roque Fernandez. Since 1990, Argentina's average tariff has declined from 29 percent to an average 12 percent in 1996 under the MERCOSUR common external tariff (CET). On January 1, 1995, Argentina joined MERCOSUR in forming a CET that covers 85 percent of traded goods. Capital goods and informatics are exempted until 2001 and telecommunications equipment until 2006. Prior to November 1997, the CET ranged from 0 to 20. However, in November 1997, MERCOSUR's members agreed to temporarily increase the CET by 3 percentage points, effective through December 31, 1999. Argentina's current average tariff (CET plus exceptions) is around 17 percent. Despite the liberal atmosphere, there are still notable barriers for US and California firms doing business in Argentina (FTB, p. 9).

In September 1995, the government of Argentina imposed "specific duties" on textiles, apparel and footwear to help counter an expected fiscal shortfall. The specific duties are inconsistent with WTO obligations and the US has asked Argentina to eliminate these measure or bring them into conformity with the WTO. Argentina maintains they are using safeguards to protect the industry from rising imports. The WTO panel convened to examine the issue ruled against Argentina, a decision against which the country has appealed.

The Argentine government desperately needs to improve infrastructure, particularly transportation infrastructure to increase its competitive advantage. Much of this will be achieved by allowing private-sector competition for rail service, ports and shipping. In January 1998, Argentina concluded the sale of the airport network. This privatization had long been delayed by the judiciary, but was finally cleared by the Supreme Court. In contrast, other initiatives, such as the privatization of the government-owned *Banco Nacion*, have faced stiff opposition and made little progress. Congress has also approved the privatization of the postal system and three nuclear power generators which are expected to bring $200 million and $250 million to government coffers, respectively.

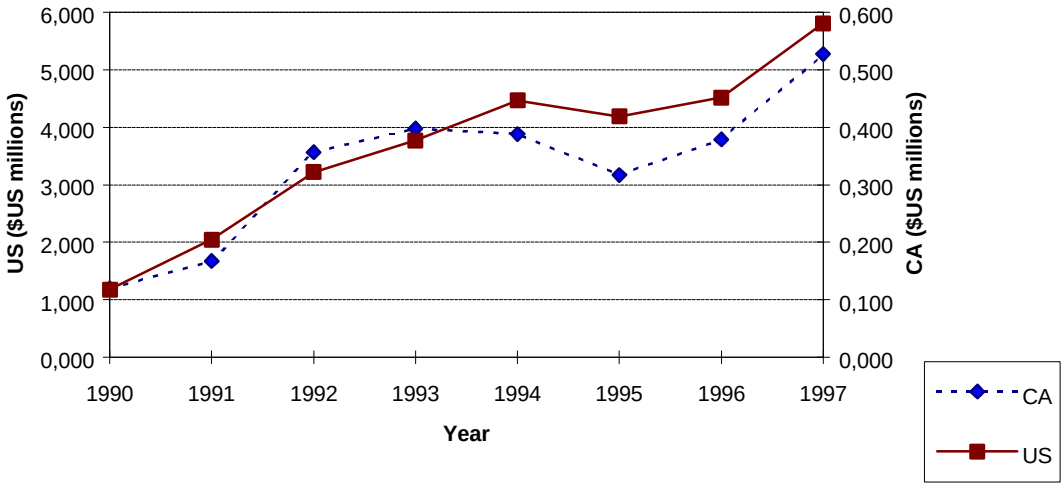
In line with needed infrastructure improvement, Argentina and the US signed a Bilateral Investment Treaty that entered into effect in October 1994 allowing US investors national treatment in all sectors except shipbuilding, fishing and nuclear power generation. The treaty opens up important sectors such as mining and telecommunications that have enormous growth potential. Foreign investors may wholly own a local company and invest in the Argentine stock market without government approval.

Lack of IPR protection, although not as severe a problem as in many developing countries, can provide an impediment to trade with and investment in Argentina. Argentina is a member of the WTO and officially adheres to most IPR agreements. However, the country was placed on the USTR's Special 301 “priority watch list” in 1992 due to its lack of protection for pharmaceutical products and has remained there ever since. In March 1996, Argentina’s Executive Branch issued a decree authorizing pharmaceutical patents starting in November 2000, but the decree was not as stringent as the US desired. The US government announced the suspension of 50 percent of GSP benefits effective April 1997 due to the lack of protection for pharmaceuticals. This lack of patent protection results in losses of over $500 million a year.

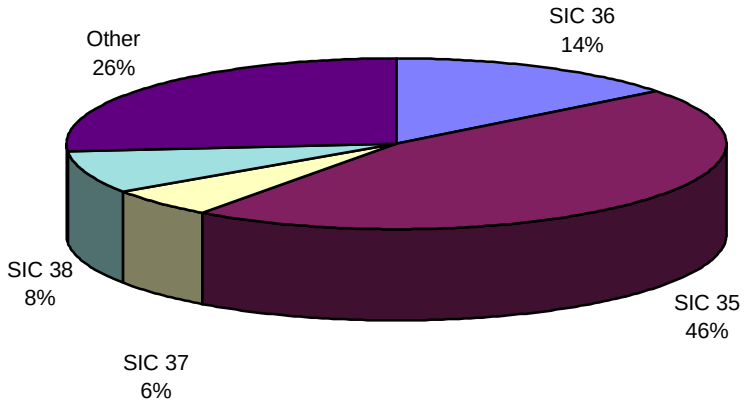
The country has implemented a new copyright law which is adequate by international standards, although it does not explicitly protect new technologies such as computer software and semiconductors. This is a definite concern for California. The Argentine Chamber of Deputies approved a bill in November 1997 making software piracy a crime, but as of July 1998, the Argentine Senate had not yet voted on the issue. In 1993, the Menem Administration issued a decree which extend protection for films from 30 to 50 years. Losses to US industries due to copyright piracy in Argentina total $255 million annually (FTB, p. 11).

Statistical Appendix

Total US and CA Exports to Argentina: 1990-1997



High-Tech Exports to Argentina as Percentage of Total CA Exports in 1997



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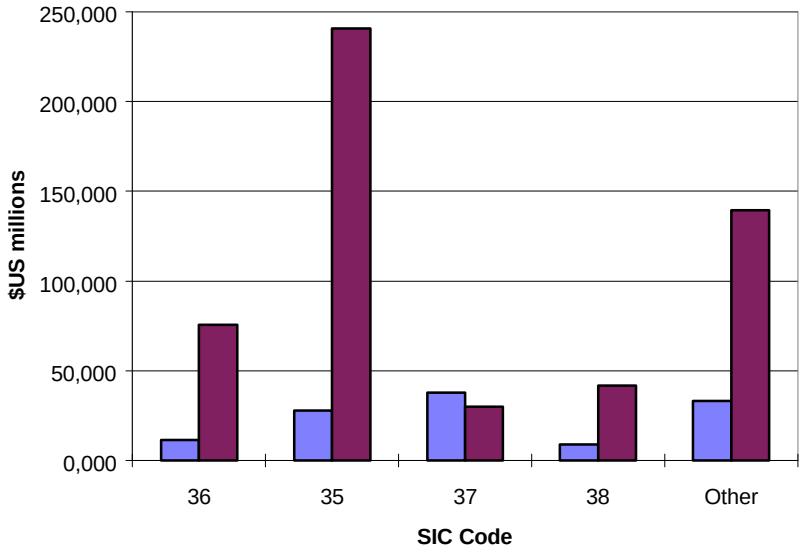
CA High-Tech Exports to Argentina by Industry: 1990 vs. 1997



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B. Central and Eastern Europe

1. Poland

Background

Poland has long been considered the heart of Europe, maintaining strong relations with countries both to the east and west. In July 1997, Poland was invited to join NATO, marking a decisive shift away from European bipolarity. The EU also included Poland on their list of first wave countries to gain membership in the customs union by the year 2000. EU ministers warned first wave countries that their membership is not confirmed and that they must continue political and economic reforms to gain admission.

Poland's governmental structure consists of a Council of Ministers led by a prime minister chosen from a majority coalition in the bicameral legislature's lower house, the *Sejm*. A president, elected every five years, is the head of state, while the judicial branch plays a minor role in decision making.

The current president is Alexander Kwasniewski, a left-leaning communist-turned capitalist who defeated Lech Walesa in the 1995 election. The government, elected in September 1997, is a center-right coalition made up of the Solidarity Electoral Action Party and the Freedom Union Party. (The Solidarity Party is a grouping of 37 parties dominated by the trade union.) Both of the parties want faster privatization (particularly the Freedom Union, the smaller of the two), as they now understand that in order to wrap up EU entrance negotiations by 2000, they must implement significant reforms.

California and US Ties with Poland

In 1997, the US trade surplus with Poland was $473 million, an increase of $132 million from 1996. US exports have risen dramatically over the past several years, rebounding from a trade deficit of $26 million in 1994. US merchandise exports to Poland in 1997 totaled $1.2 billion, $203 million greater than those in 1996. Poland was the fifty-third largest US export market in 1997. US FDI continues to grow, making the US the largest foreign investor with over $3 billion since 1990.

In 1997, California exports to Poland totaled $88 million, a slight increase over 1996. This ranked Poland as California's forty-ninth largest export destination ahead of Ecuador and behind Greece. Poland's recent accession to NATO yields great opportunities for California companies in key sectors such as high-tech and defense-related equipment.

According to the US DOC study from 1996, Poland is a top "Big Emerging Markets" for US business. The top reasons for doing business in Poland are political stability, commitment to economic reform, good prospects for real economic growth and the size of the market. Most believe Poland is the best market in Central and Eastern Europe for both exports and investments. The US DOC ranks the top ten prospects for US export growth to Poland as:

Sector	**Estimated 1998 Market Size**
Computer Software	$ 693 million
Computers and Peripherals	$1,874 million
Electrical Power Machinery and Equipment	$1,450 million
Construction Materials and Equipment	$2,400 million
Plastics in Primary Form	$ 151 million
Automobile Parts and Components	$1,380 million
Pollution Control Equipment	$ 470 million
Food-Processing Equipment	$ 523 million

Broadcasting	N/A
Telecommunications	N/A

US-Polish relations have grown stronger since the fall from power of Poland's communist regime in 1989. The US had always supported the desire of the Polish people to achieve freedom and democracy, but was careful not to intervene in Polish domestic affairs during the Cold War.

With Poland's return to freedom, the US has been a close advisor and friend as the Polish government engineers the transition from a state-directed to a market-driven economy. Between 1989-1993, the US gave $928 million in assistance to Poland and Hungary through the Support for East European Democracy (SEED) Act. In late 1994, President Clinton also announced a package of incentives designed to promote continued economic growth, trade, investment, and social adjustment. Poland is the largest recipient of US aid to Central and Eastern Europe, with more than $4.6 billion committed since 1989 to such areas as debt reduction, privatization, democratic institutions, and environmental protection. US firms remain the most active foreign investors in Poland (Background Notes).

Economic Policy Framework

Poland has a relatively large consumer market of 38.6 million people, three times the size of the Czech Republic and Hungary. In 1997, Poland's economic output flourished at an unexpectedly high 6.9 percent while its regional competitor, Hungary, has grown at the slower rate of 5.3 percent. Poland's GNP in 1996 was $124 billion, substantially larger than Hungarian GNP of $44 billion. The unemployment rate sits at around 10.6 percent.

Poland continues its transition to a market economy that began in January 1990. The government implemented comprehensive "shock therapy" by lifting price controls, slashing subsidies and drastically reducing import barriers. The reforms have been successful, enabling Poland to become the first of the former communist countries in Central and Eastern Europe to experience macroeconomic stability and a sustainable turnaround toward growth. Strong private investment and increased exports have sustained economic stability into 1998.

High business investment and construction sales led the economy with 22- and 27.1-percent growth, respectively, as the emerging private sector modernizes its plant and equipment. The large domestic market continues to play a vital role in the expansion of the economy as consumption rose by 6 percent in 1997, spurred by rising real wages. Economic growth for 1998 is expected to be around 5.3 percent.

Rising wages and increased consumption have perpetuated the higher-than-desired inflation levels, 15.9 percent for 1997, almost 4 percentage points above the government's goal for that year. Although Poland has been hailed for its remarkable economic stability since the democratic transition, the government's desire to become a member of the EU will mean that much of its macroeconomic policy will focus on budget and inflation restraint. In 1997, exports increased 11.5 percent as imports grew by 18.1 percent, leading to a trade deficit of $11.3 billion in 1997, up from $8.2 billion in 1996. This trade deficit is not of concern, however, but should be seen as a sign of Poland's long-term growth prospect: a large chunk of the imports are capital goods and production inputs.

The Asian crisis seems to pose only a small threat to Poland for two principle reasons. For one, Poland has very few trade ties with any Asian country, so it cannot be directly harmed by economic difficulties in that region. In addition, the vast majority of its exports are destined for Europe, primarily Germany, which receives 35 percent of all Polish exports; the EU does not appear to be in any significant danger from the crisis. On the other hand, Russia is Poland's second biggest export market, buying 6.8 percent of all Polish exports, and the situation in that country is highly volatile.

Despite an encouraging start to privatization and economic liberalization, Poland began to slow in 1996, particularly in the area of financial liberalization. In fact, EU officials are concerned that the Poles have

not seriously begun to tackle the reforms that are needed to prepare the country for membership. In order to qualify for its hoped-for admission to the EU by 2002 (as unlikely as this seems due to the amount of time other countries such as Spain or Portugal took), the government must sell off more of the state, slash loss-making industries, close coal mines, and modernize the agricultural sector.

At the moment, the liberalization process of the telecommunications sector is to begin in 1998 with the privatization of the state-owned phone company, though local telephone services are already open to foreign investors. In addition, the national airline is to be privatized in 1999, the entire power sector will be in private hands by 2001, two pharmaceutical companies are currently being bid upon, and the copper giant Polska Miedy is slated to be sold. The Polish government began accepting bids for its multi-billion dollar petroleum refining and distribution companies in July 1998.

Nervousness on the part of prospective foreign investors and a fear within the old government that the Polish financial institutions could be completely absorbed by foreigners led to a stalling of the liberalization of that sector. The Organization of Economic Cooperation and Development (OECD), World Bank and EU have frequently pointed to persistent balance sheet and operational weaknesses in the financial sector, and urged faster privatization as the remedy. It appears that there is now some movement on that front with some major financial sector privatization plans between 1998 and 2000. In addition, licensing restrictions that have kept foreign financial institutions at bay will likely be extended with OECD permission, but EU accession will put Poland under increasing pressure to expedite this sector's liberalization plans.

FDI inflows remained robust in 1997, increasing 26.9 percent to $6.6 billion. FDI has totaled $20.6 billion since 1990 with the US and Germany as the largest investors. Investment should continue to be strong in 1997 with two pharmaceutical companies, the fifth largest state bank and the copper giant Polska Miedy slated to be sold. Energy laws were also passed, significantly liberalizing and opening privatization of the energy sector.

To protect its enterprises, a new tariff schedule with an average duty of 14 percent was put in place in 1991, and tariffs consequently were raised even higher on certain luxury items, including computers and electronics. Tariff reductions have resulted from agreements concluded with the EU, the CEFTA and the WTO. The overall tariff level has decreased steadily since 1992, from an average duty level of 14 percent to 6.7 percent in 1997, where average rates for industrial goods are 4.9 percent and average rates for agricultural goods are 19.8 percent.

The Association Agreement between the EU and Poland gives EU exporters a significant competitive advantage over US exporters and investors through tariff preferences. Higher customs duties add unnecessary costs to imported capital goods used in production (US DOC, p. 3). While overall US exports to Poland continue to rise, it is hard to estimate the loss of potential exports caused by preferential treatment.

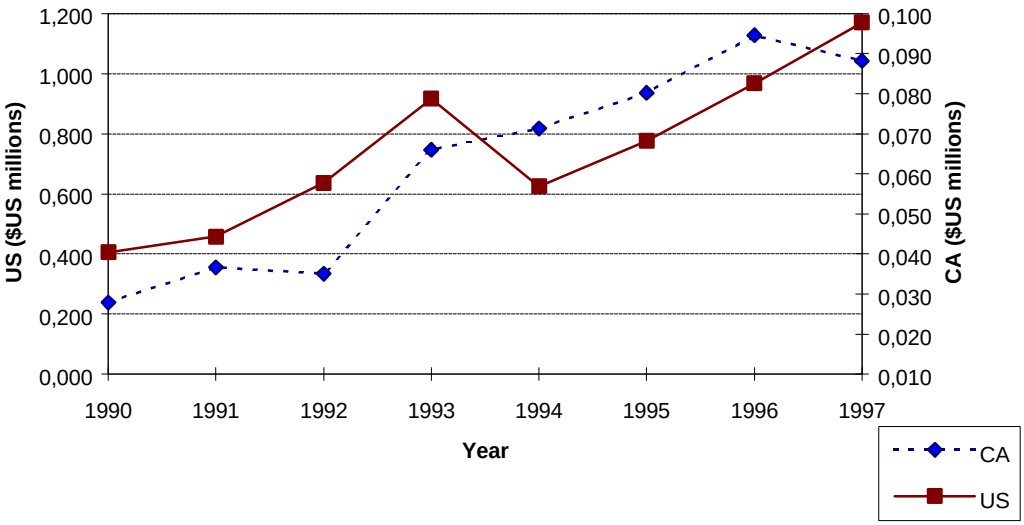
Changes in Poland's foreign investment laws now permit 100-percent foreign ownership. In preparing for OECD membership in 1996, Poland liberalized rules governing capital flows and foreign ownership of land and committed to the principle of national treatment. No registration or approval by the government is required except in foreign acquisition of state-owned real estate and certain strategic industries such as defense, seaports and airports, wholesale trade in consumer goods, and legal and real estate services. A permit to operate in these areas can only be denied if a proposed investment threatens the economic or security interests of Poland (US DOS, p. 7).

Poland's new government procurement law, which came into effect in January 1995, at the national level and in January 1996 at the regional level, is modeled after the UN model procurement code. It is based on competition, transparency and public announcement. A serious drawback, however, is that it does not cover purchases by state-owned enterprises.

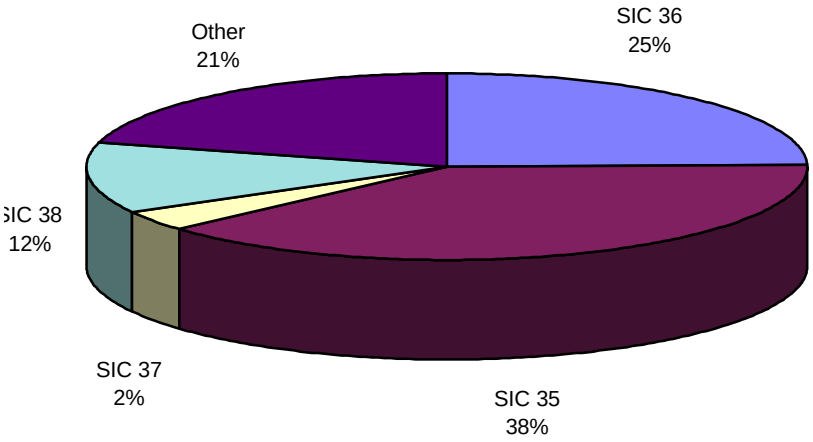
IPR protection is a long-standing problem in Poland. Following several years of pressure from the West, Poland passed in 1994 a law on copyrights to crack down on widespread piracy. This is important to California because the bulk of the piracy was on video and sound recordings. The passage of this law was instrumental in allowing a 1990 treaty on trade and economic relations between Poland and the US to take effect. This treaty provides investment guarantees for US investors in Poland, protects IPR, and allows free transfer of profits from Poland (US DOC, p. 6). Piracy of US-made video and sound recordings in Poland has decreased in recent years due to improved enforcement, however computer software piracy remains a problem. The primary reasons that piracy is still problematic are lack of manpower and resources as well as technical barriers to prosecution.

Statistical Appendix

Total US and CA Exports to Poland: 1990-1997



High-Tech Exports to Poland as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:

SIC 35: Industrial machinery and equipment including computers.

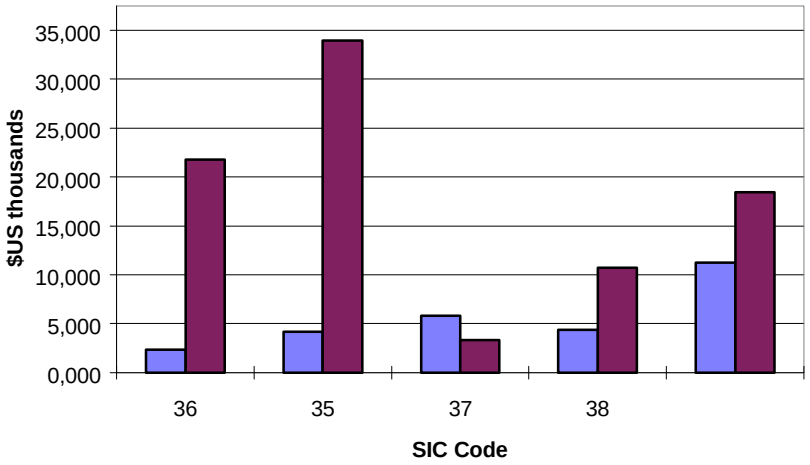
SIC 36: Electronics and electronic equipment not including computers.

SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

CA High-Tech Exports to Poland by Industry: 1990 vs. 1997



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2. Hungary

Background

Hungary's transition to a western-style parliamentary democracy was the first and most efficient among the former Soviet Bloc countries. In October 1989, the parliament adopted legislation providing for multiparty parliamentary elections and a direct presidential election. At this time, it asserted the "values of bourgeois democracy and democratic socialism" and gave equal status to public and private property as a prerequisite for moving toward a market economy. In effect, Hungary became a parliamentary democracy with a democratically elected legislative assembly.

On May 24, 1998, Viktor Orban became Hungary's prime minister, forming a conservative coalition government between his Fidesz (Federation of Young Democrats Hungarian Civic Party), the Hungarian Democratic Forum (MDF) and the rural-based Independent Smallholders' Party. Orban now inherits the legacy of his Socialist predecessor Gyula Horn, whose party transformed the former Communist country into the economic star of Eastern Europe over the past four years. When the new prime minister introduced his cabinet ministers to the Hungarian Parliament on July 8, 1998, Orban credited the departing administration for bringing Hungary "to the doors of the European Union [EU] and NATO." During the introductory ceremony, Orban also pledged that his coalition government would promote faster economic growth to expedite Hungary's entrance into the EU.

In the eight years since its political transition, Hungary has made remarkable progress in establishing the basic foundations necessary for a prosperous market economy. For instance, Hungary now leads all Eastern European countries in foreign investment, and its successful restructuring program has improved its macroeconomic standing. Also, most Hungarian goods and services are now produced by the private sector. Finally, Hungary gained membership in the OECD in May 1996. In effect, 70 percent of Hungary's trade is with OECD countries, including over 60 percent with the EU. This marks a notable change from Hungary's pre-1990 trading practices, when 65 percent of the nation's trade was with the Communist Economic Bloc Countries (COMECON).

In addition to the OECD, Hungary began EU membership talks in March 1998 along with Poland, the Czech Republic, Estonia, Slovenia, and Cyprus. Moreover, it is expected to join NATO next year along with Poland and the Czech Republic.

California and US ties with Hungary

California exports to Hungary were valued at $70.8 million in 1997 making Hungary California's forty-ninth largest export market, behind Poland, but ahead of Portugal. California represented more than 27 percent of total US exports to Hungary in 1997.

In 1997, the US exported $486 million in merchandise goods to Hungary. This was a 47-percent increase from 1996. These exports come from important California industries such as electrical equipment, industrial machinery and computer equipment. Furthermore, the US has become a major player in Hungary's business world via foreign investment. US FDI since 1989 totals $5 billion, more than a third of FDI in Hungary. Hungary is the largest recipient of US FDI in Eastern Europe. Hungary's recent accession to NATO yields great opportunities for California companies in key sectors such as high-tech and defense-related equipment.

According to the US DOC, the top growth markets for US exports to Hungary are:

Sector	Estimated 1998 Total Market Size
Telecommunications Equipment	$ 919 million
Franchising	$ 841 million

Computers and Peripherals	$ 438 million
Travel and Tourism	$ 3,300million
Films and Videos	$ 45 million
Pollution Control Equipment	$ 78 million
Cosmetics	$ 239 million
Electrical Power Systems	$ 120 million

In contrast to the strained relations that the communist Hungary and the US shared following World War II, conditions today between the countries are cooperative and stable. In 1978, for instance, two events occurred which marked the beginning of a new era in US-Hungarian relations. First, the US returned to the people of Hungary the historic Crown of Saint Stephen and other Hungarian coronation regalia which had been safeguarded by the US since the end of World War II. Second, Hungary was extended Most-Favored-Nation (MFN) status in a bilateral trade agreement.

These two occurrences established the foundation on which stable US-Hungary relations could be built. In 1991, the US and Hungary initiated a security assistance relationship that is now active in both the $700,000 International Military Education and Training Program and the $13 million Foreign Military Sales Program. Additional US assistance includes a $10 million energy-sector grant and other technical assistance. Grants to the International Executive Service Corps, MBA Enterprise Corps, and the Center for International Private Enterprise help these nongovernmental organizations provide expertise directly to private enterprises. Programs such as these have helped foster excellent relations between the US and Hungary. (Background Notes)

As Hungary began to pull away from the links forged by Soviet Communism, moreover, the US offered assistance and expertise to help establish a constitution, a democratic political system, and a plan for a free-market economy. Between 1989 and 1993, the SEED Act provided more than $136 million for economic restructuring and private-sector development. The Hungarian-American Enterprise Fund, capitalized at $65 million, offers loans, equity capital and technical assistance to promote private-sector development of Hungarian-American joint ventures (US DOC). In 1995, 3,720 new joint ventures were started bring the total to 25,655 for all of Hungary.

Economic Policy Framework

Hungary has a relatively small consumer market of 10.3 million people, equivalent to the Czech Republic but nearly one-third the size of neighboring Poland. Because of the economic transition from a command to market economy, GDP declined slightly through 1996, contracting at an annual average rate of 1 percent. In 1997, however, Hungary's GDP grew approximately 4 percent over the previous year, suggesting that it is finally starting to reap the benefits of implementing a free-market economy.

The Hungarian government has promoted private businesses and moved forward with privatization of state enterprises. Between 1990 and 1994, its ambitious economic reform plan managed to stabilize the economy and tame inflation; however, economic growth under the MDF was minimal and the lack of benefits to the average Hungarian individual led to the reformed Hungarian Socialist Party's (MSZP) return to power in 1994. The Socialist Party, with then-Prime Minister Gyula Horn at the helm, implemented a far-reaching austerity program to fully transition Hungary into a market economy.

The MSZP's austerity program was introduced in March 1995 to lower the high debt burden, restructure the economy, and lower prolific government spending that had swelled the budget and trade deficit to alarming heights. The austerity program slashed government spending on social benefits, laid off 13 percent of civil servants while freezing remaining employees wages, devalued the artificially strong currency by 8 percent and imposed an 8-percent surcharge on imports. Eastern Europe's most ambitious economic package also sought major privatization including the sale of the gas and electric utilities, telephone company, and banks to foreign investors. Finally, the Horn Administration passed a bankruptcy, accounting and banking legislation and microeconomic reforms forcing companies to be profitable or shut down.

Three years of radical reform have curbed the ills of the ailing economy and pushed Hungary ahead of neighboring Eastern European countries on the road to a complete market economy. The Socialist programs successfully cut the public-sector deficit from 9.6 percent of GDP in 1995 to about 4 percent in 1997, and reduced inflation by 5 percentage points to the current 18-percent annual rate. Standard and Poor's awarded Hungary's rapid improvement by upgrading its debt allowing for reduced borrowing costs in 1996.

One of the main ingredients to Hungary's successful economic transition was privatization. In contrast to the Czech Republic who handled privatization through mass voucher sales to the domestic market, Hungary focused on strategic, core western investors. The presence of many multinational corporations in Hungary—including such notable companies as Motorola, Ford, Audi, Suzuki, and Volkswagen—continues to lend the country validity as a strong investment location and strengthens the country's outlook for membership in the EU. Foreign investors have improved technology, increased the skill level of the work force and modernized management. Currently, two-thirds of exports to the EU are technology-intensive products and 70 percent of manufactured goods come from partially or wholly owned foreign companies.

Indeed, this focus on privatization seems to have paid off. Industrial output, for example, increased by about 11 percent in 1997, compared with 1996 figures. Also, real wages in Hungary's private sector grew in the January-November period of 1997, recording an increase of 4.6 percent compared with the same period for 1996, allowing for concurrent growth in household savings. Finally, Hungary's deficit shrank from $1.7 billion to $987 million in 1996 and 1997, respectively.

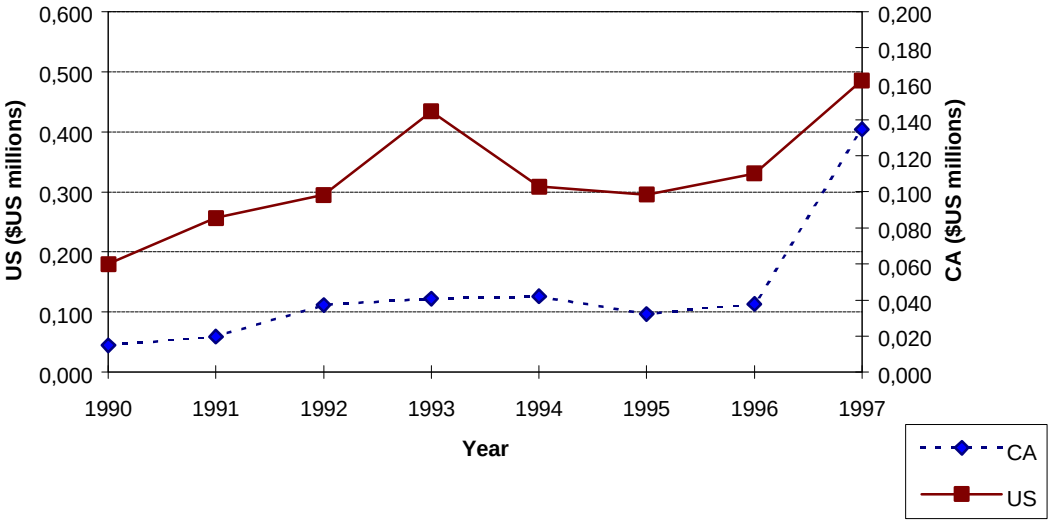
Although inheriting a generally successful Socialist economic program, the Orban government still has work ahead to complete austerity measures. The public sector requires further streamlining and pension reform needs to be finalized. The new prime minister promises to stimulate growth and increase domestic employment by cutting taxes, and to improve tax collection and administration over his four-year tenure. Also, he calls for an expedient reduction of Hungary's inflation rate—14 to 15 percent—which he deems imperative as the country moves toward EU membership. "The most important priorities are growth and pushing down inflation, which we believe is our number one problem," said newly appointed Finance Minister Zsigmod Jarai on July 6, 1998.

The new prime minister also has a formidable social problem that he must deal with. There has been a severe problem concerning the distribution of this new found economic productivity. While the western part of the country has developed into a global player, the eastern half has been neglected in terms of infrastructure, government efforts at the region's economic galvanization, etc. In effect, the Fidesz plans to promote investment in Hungary's eastern half constructing the M3 highway from Budapest eastward. Orban's party also pledges to increase child allowances and to abolish tuition fees for students.

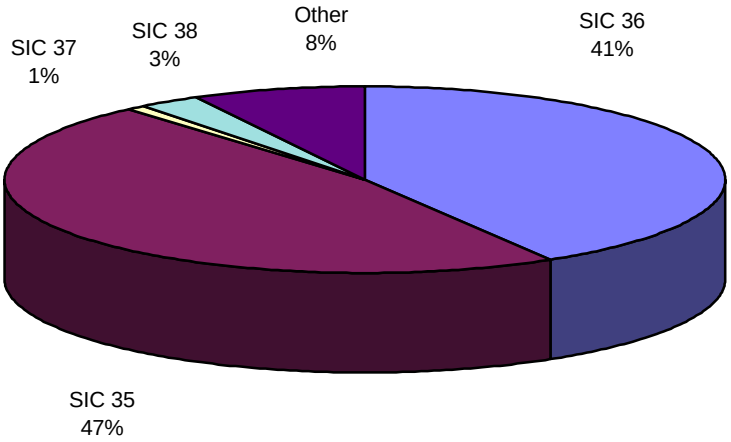
Hungary is a member of the WIPO. As such, it provides protection for a wide variety of IPRs including patents, trademarks, copyrights, and inventions. US industry has long complained that Hungary offers inadequate IPR protection; specifically, it provides protection for processes but not products. Compulsory licensing and inadequate protection against video and tape piracy have also been problems. On August 2, 1993, the USTR removed Hungary from the Special 301 "priority watch list" after it concluded a comprehensive IPR agreement with US negotiators.

Statistical Appendix

Total US and CA Exports to Hungary: 1990-1997



High-Tech Exports to Hungary as Percentage of Total CA Exports in 1997



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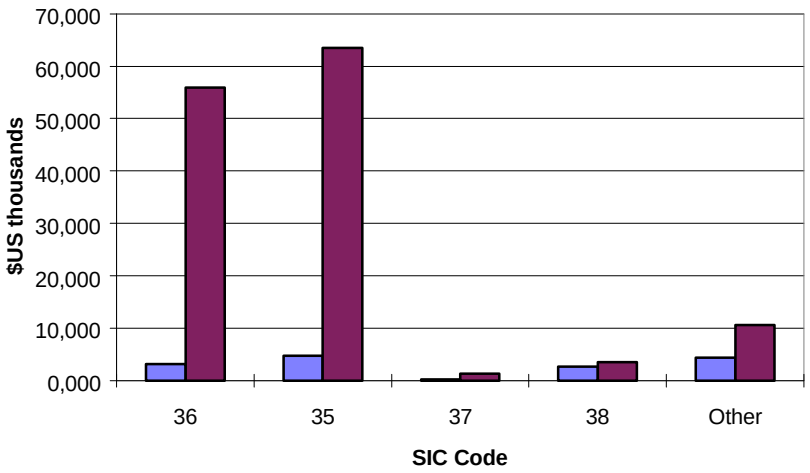
CA High-Tech Exports to Hungary by Industry: 1990 vs. 1997



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3. Czech Republic

Background

The Czech Republic was established on January 1, 1993. Formerly part of Czechoslovakia, it is the home of 10.5 million people and is in the midst of a rigorous effort to transform from a communist state-controlled economy to a free market. While the years 1993-1996 showed the Czech Republic to be on the cutting edge of former communist state economic transformation, political problems and policy inaction have dimmed what was once a shining star. While GDP growth reached a peak of 6.4 percent in 1995, in 1997 this figure fell to a mere 1 percent. Per capita income is $10,870 (purchasing power parity).

The Czech Republic is the western part of the former Czechoslovakia. Formed into a common state after World War I, the Czechs, Moravians and Slovaks remained united for more than 75 years. With the fall of the Communist Party in December 1989, playwright/political activist Vaclav Havel was elected President of Czechoslovakia. A coalition government, in which the Communist Party held a minority of ministerial positions, was formed in December 1989. By 1992, Slovak demands for greater autonomy effectively blocked the daily functioning of the federal government. On December 27, 1992, members of the federal parliament, divided along national lines, barely cooperated enough to pass the law officially separating the two nations. On January 1, 1993, the "Velvet Revolution" took place and the Czech Republic and the Slovak Republic were simultaneously and peacefully formed.

The Czech government is a multiparty parliamentary democracy containing three branches of government. The executive branch is led by the President Vaclav Havel who is not affiliated with any party but remains one of the country's most popular politicians. Elections in June 1998 gave 74 of 200 seats to the left-leaning Social Democrats and their leader Milos Zeman. The primary opposition party, the right-leaning Civic Democratic Party (ODS), led by former prime minister Vaclav Klaus, took 63 seats. The remaining 63 seats were divided among three smaller parties, the Freedom Union, the Christian Democrats and the Communist Party. Since neither of the two big parties were able to form a coalition government, Zeman and Klaus agreed that the ODS would support a minority Social Democratic government in return for the speakership of the two houses and chair of the budget and secret services committees in Parliament. Such an arrangement will likely ensure moderate behavior from Zeman, whose socialism has only recently been tempered by a belief in markets.

The Czech government, having largely adjusted to the economic consequences that emerged from the split with the Slovak Republic, is continuing down the road toward acceptance into Western European organizations, albeit at a slower pace than originally expected. During the NATO Summit in Madrid in July 1997, the presidents and prime ministers of NATO countries issued a formal invitation to the Czech Republic to join the 16 country military alliance. The invitation anticipates integration of the Czech's military system with the Western alliance by April 1999. The Czech Republic was also announced as a top prospect for expansion into the 15-nation EU, though then-EU president Jacques Santer warned the Czechs that they had to improve their economic performance and show a true respect for democracy to receive membership by the year 2000.

California and US Ties with the Czech Republic

In 1997, total US exports to the Czech Republic were more than $591 million, a 13-percent increase over 1996. California's exports to the Czech Republic in 1997 totaled $65.6 million, a 26-percent decrease from 1996. The downward trend appears to be continuing: California exports in the first quarter of 1998 totaled $15.6 million, 2 percent less than the first quarter of 1997. Currently, the Czech Republic ranks as California's sixtieth largest export destination ahead of Qatar and just behind Vietnam. The country's recent accession to NATO yields great opportunities for California companies in key sectors such as high-tech and defense-related equipment.

According to the US DOC, the top seven prospects for exports are in the following sectors:

Sector	Estimated 1998 Market Size
Information Technologies	$ 1,500 million
Electrical Power Systems	$ 2,250 million
Aircraft and Parts	$ 190 million
Pollution Control Equipment	$ 750 million
Medical Equipment	NA
Travel and Tourism Services	NA
Franchising	NA

Since the "Velvet Revolution" of 1989, bilateral relations between the US and the Czech Republic have improved immensely. The US government has actively encouraged the Czech Republic's political and economic transformation. The US supported the transformation from communism through $150 million in economic assistance programs. The US, though, has phased out its assistance programs to the Czech Republic, an indication of the Czech Republic's role as an emerging partner with the US.

The Czech Republic is a small but growing market for US products. The US has contributed 13.2 percent of FDI since 1990, making the US the third largest investor. European competition for the Czech market is intense; over one half of the country's trade is conducted with neighboring countries Germany, Austria, Slovakia, and Poland. From 1990 through 1997, Germany was the largest investor, with 27.9 percent of FDI, followed by the Netherlands with 13.8 percent. Economists estimate that the Republic could absorb approximately $1.5 billion annually in foreign capital over the course of the next several years. This would primarily be in the restructuring of its industries and rebuilding infrastructure to put the economy on solid ground.

With a few limited exceptions, all sectors of the Czech economy are fully open to US investment. The government has ended its monopoly in the defense industry by deciding to sell off part of Aero Vodochody to a Boeing/Czech Airlines consortium. The primary disadvantage is the absence of a comprehensive system of investment incentives. The Czech Republic is behind both Hungary and Poland in offering no automatic tax concessions, no direct financial help and no system of accelerated depreciation. This, along with a level of tentativeness in political stability due to the existence of a interim government, may explain, in part, the low level of investment in the first quarter of 1998. The Czech Republic, does, however, offer tariff concessions on imported capital equipment.

There are no significant barriers for US exports to this country. A bilateral tax treaty was signed on January 1994, and the US extended MFN status to the Czech Republic. The country has adopted a WTO tariff code with a trade-weighted average tariff of 5 to 6 percent. This is being reduced to close to 4 percent in accordance with Czech commitments in the Uruguay Round. Most EU exports enjoy lower tariffs under the Czech Republic's EU association agreement, moving to zero tariffs by 2000. In 1997, the Czech Republic joined 40 other countries in signing the WTO's Information Technology Agreement (ITA). ITA covers over 92 percent of the world's information technology capacity with three scheduled tariff cuts through the year 2000.

Some American companies have complained of unfriendly business conditions in their pursuit of investing during the course of the Czech Republic's privatization process. This is due to the fact that political reforms made at top levels of government often take time to trickle down to the bureaucracy. Some of these problems include: the continued imposition of high taxes; the lack of a transparent bidding process; general slowness of decision-making in the government; excessive red tape; the maintenance of higher tariffs against non-European goods; and little enforcement of IPRs, particularly copyrights. However, in the instances when the US Embassy has been asked to intercede on behalf of an investor, Czech government officials have proven to be accessible and receptive in most cases. And by law, the government does not differentiate between foreign and domestic investors, though in government procurement procedures, there is a 10-percent price advantage for domestic firms.

The high skill level of the Czech labor force, as well as the country's central position in Europe, make the Czech Republic a good platform for exporting to the region through the Central European Free Trade Agreement (Czech Republic, Poland, Hungary, Slovakia, Slovenia, and Romania) and to Russia and the NIS.

Economic Policy and Framework

The Czech Republic has a relatively small consumer market of 10.5 million people, equivalent to Hungary but not quite one-third the size of neighboring Poland. As of the first quarter of 1998, the Czech economy is unsteady. GDP declined 0.9 percent in the first quarter of 1998, the first fall since 1993. Also, several big banks are in bad shape. The Czech Republic's GNP in 1996 was $48.9 billion, substantially smaller than Polish GNP of $124 billion

From 1990-1996, Czech macroeconomic indicators were generally favorable. However, since mid-1997 when an austerity package was implemented, these indicators have worsened: GDP growth has plummeted to 1 percent in 1997; the unemployment rate has grown from 3.9 percent for 1997 to 5.5 percent in March 1998; the koruna has depreciated, and will likely continue to do so; and due in part to the depreciation, inflation is expected to grow to around 12 percent for 1998, above the 8.5 percent rate for 1997. The primary exception to these figures is that labor productivity rose 6.2 percent in 1997. The budget deficit has been low, but this may change given the installation of a left-leaning government. The combination of high inflation and Social Democratic campaign promises to finance investment in housing and infrastructure, will provoke the central bank to keep interest rates high for the foreseeable future. This macroeconomic trend is likely to continue.

The Czech Republic has found itself in trouble entering 1997 due to major weaknesses in the country's privatization programs and the uncompetitive nature of Czech companies. Since privatization hit its peak in mid-1995 with the sale of Czech telecom, privatization has slowed down dramatically, though it is important to note that about 80 percent of output is produced by nominally or wholly private firms. Certain tasks remain important, such as completing the privatization of the steel, the railroads, utilities, telecommunications and financial sectors, restructuring firms to maintain competitiveness, and strengthening the regulatory framework. Success in industry has been almost exclusively associated with foreign ownership and inward investment. Rapid growth for most Czech-owned industry appears limited in that investment as a whole is weak and is likely to remain so while interest rates remain high and most businesses use only banks for credit. GDP growth rate forecasts for 1998 range between 1.7 to 2 percent.

It is highly unlikely that the new Social Democratic government will make any fundamental change in the country's pro-Western orientation, but it will probably adopt a more careful approach to further privatizations, pushing restructuring further back. The Social Democrats and Civic Democrats have agreed that utility prices and household rents will be liberalized at a less rapid pace, and the sale of utilities will proceed more slowly. Furthermore, state-owned banks will not now be sold off until around 2000, though in March, before the current government was elected, the interim government of Josef Tosovsky agreed to sell its 36 percent share in the Investicni a Postovni Banka to the Japanese Nomura Group.

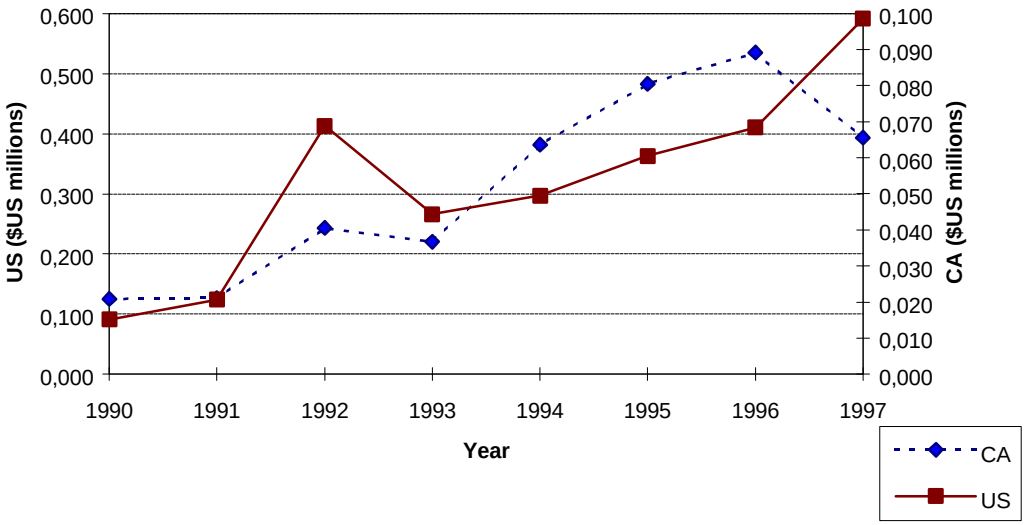
The Czech Republic has revamped its legal and administrative structure with the goal of attracting investment and stimulating the economy. Foreign investors can, as individuals or business entities, establish sole proprietorships, joint ventures and branch offices in the Czech Republic. In addition, the government recognizes joint-stock companies, limited liability companies, general commercial partnerships, limited commercial partnerships, partnerships limited by shares and associations. Legally, foreign and domestic investors are treated identically and both are subject to the same tax codes and other laws. With the exception of some limited tax benefits granted to entice investment into high-priority sectors and assist economically depressed regions, the government has strongly opposed special investment incentives believing they are both unnecessary and ineffective in attracting foreign capital.

The Czech Republic is bound to the Bern and Universal copyright conventions and the Paris Convention on industrial property. The government is working to ensure that Czech laws for the protection of intellectual

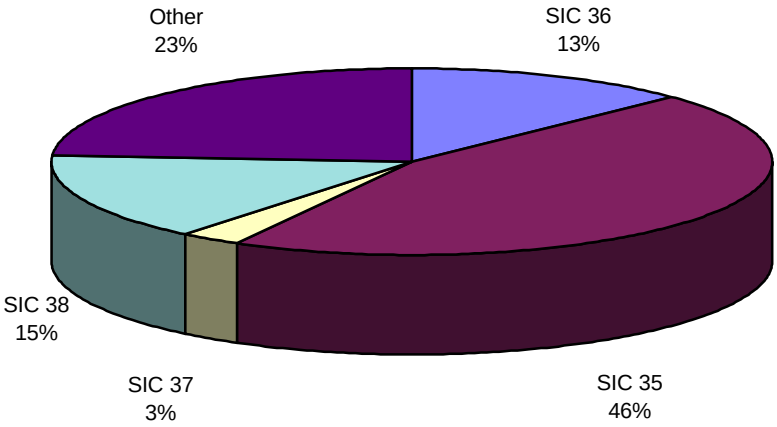
property meet those of western Europe. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks, and semiconductor chip layout design. While the Czech authorities have made some strides in enforcement, problems with delays in indictments and prosecutions remain. The Czech government addressed certain key shortfalls in IPR laws of concern to the US in amendments to the trademark law and the copyright law. The trademark law change brings Czech law into compliance with relevant EU directives and the WTO TRIPs (trade-related aspects of intellectual property rights) agreement. The amendment to the copyright law is also designed to bring Czech law into full compliance with the WTO TRIPs agreement and EU standards.

Statistical Appendix

Total US and CA Exports to the Czech Republic: 1990-1997



High-Tech Exports to the Czech Republic as Percentage of Total CA Exports in 1997



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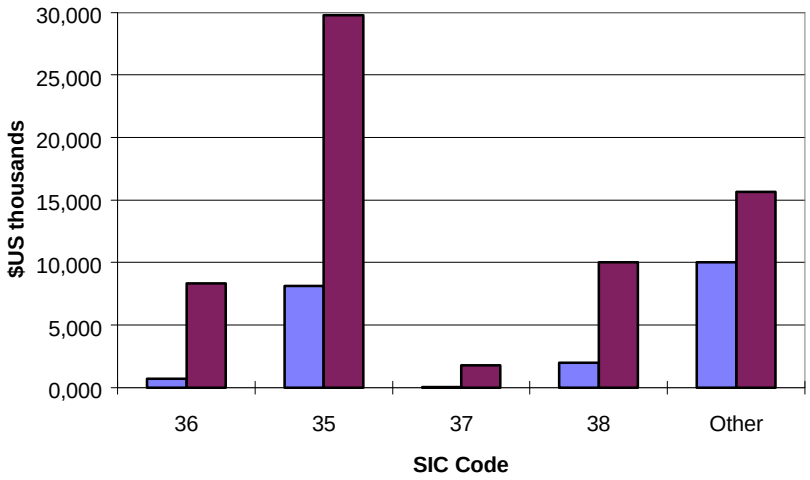
CA High-Tech Exports to the Czech Republic by Industry: 1990 vs. 1997



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4. Russia

Background

On December 26, 1991, after 69 years of existence, the Union of Soviet Socialist Republics, one of two nuclear superpowers, formally ceased to exist. The Russian Federation became the largest successor state of the former political union and inherited the USSR's seat on the UN Security Council, as well as the bulk of its foreign assets and debt. In what may be the biggest political and economic transition in history, Russia has worked to shed the liabilities of the Soviet Union to create a market-oriented democracy.

In this process, Russia has undergone one of the largest privatization programs in history. The political uncertainty of the reformers led to a speedy privatization process. In just three years from 1991, some 120,000 enterprises shifted from state to private ownership. But this instant capitalism was created without competition. So much land was privatized so quickly without first being broken up and restructured. Furthermore, in the fall of 1995, Yeltsin initiated the shares-for-loans privatization schemes to win support for his reelection campaign. The program did lead to Yeltsin's reelection, but it also led to the overnight transfer of controlling stakes in some of Russia most valuable companies to managers, bankers and government insiders at a fraction of their potential worth.

All of this change has been accompanied by the dramatic growth in power and presence of the Russian mafia. While the new Russian elite has close ties to the Kremlin, they are also inextricably joined to Russia's criminal corporations. According to Russia's Interior Ministry, criminal gangs now control some 40,000 enterprises in Russia, including 500 banks. Furthermore, the mafia's coercive collection procedures not only exceed those of the government, but even the IRS. According to the International Institute of Strategic Studies in London, 80 percent of Russian enterprises by on average 10 to 20 of their profits as protection money.

Despite all its shortfalls, Russia still holds great potential as a rapidly emerging market. In terms of natural resources, Russia may be the richest country in the world. It has 40 percent of the world's natural gas reserves, 6 percent of its oil, 30 percent of its aluminum and timber, and 25 percent of coal, diamonds, gold, and nickel. Furthermore, Russian labor costs are half those of Poland and Mexico and one-twentieth of Germany's. Finally, Russia has a large consumer base of 148 million people and an educated and technically skilled work force.

Officially called the Russian Federation, a constitution was instituted on December 12, 1993. The government includes three branches: the executive, led by the president and a prime minister; the legislative, composed of the parliament; and a judicial, containing a Constitutional Court, a Supreme Court, and a Supreme Court of Arbitration. The constitution created a two chamber legislature. The upper house, Federation Council, consists of 178 members comprised of two representatives from each of Russia's 89 provinces. The more powerful lower house, the State Duma, has 450 deputies elected on a territorial basis.

Moscow is the largest city (population 9 million) and is the capital of the federation. Moscow continues to be the center of Russian government and is increasingly important as an economic and business center. However, not all power resides in Moscow as it once did under the Soviet empire. Many of the leaders of Russia's 89 republics are gaining significant independence and legitimacy through direct elections that was nonexistent when governors were appointed. The devolution of power from Moscow has brought many positive results. Most notably, that when Moscow fails to deliver on its promises, the regions now have some measure of control in righting the situation. On the other hand, many republic leaders have entrenched themselves in their presidential (governorship) role, often through non-democratic means such as election fraud, bullying independent newspapers, and even murder. The central government is looking to ways to gain some fiscal leverage on lower-level governments through ensuring that federal funds transferred to regional governments are spent as intended.

In the political system established by the 1993 constitution, the president wields considerable executive power. There is no vice president, and the legislative branch is subordinate to the executive. The president nominates the highest state officials, and can pass decrees without the consent from the Duma. He is also head of the armed forces and of the potentially powerful security council.

California and US Ties With Russia

Russia ranks as California's twenty-fourth largest export market, just ahead of Argentina and behind Sweden. California exports to Russia totaled $306 million in 1997, an increase of 11.1 percent over 1996 levels. Results are looking even better for 1998. California exports totaled $179 million for the first quarter of 1998 compared to only $57.5 million for the first quarter of 1997, a 211-percent jump.

In 1997, the US trade deficit with Russia totaled $1 billion, a $780 million leap from the 1996 trade deficit. US exports to Russia decreased 1.5 percent in 1997, coming to a total of nearly $3.3 billion. Russia currently ranks as the United States' thirty-fifth largest export destination. The US is by far the largest foreign investor in Russia, accounting for nearly 30 percent of the total $21.8 billion invested through 1997. Foreign investment is concentrated in the finance and energy sectors.

According to the US DOC, the top ten prospects for exports are in the following sectors:

Sector	**Estimated 1998 Import Value***
Oil and Gas Equipment	$ 150 million
Mining Equipment	$ 350 million
Construction Equipment	$ 550 million
Computers and Software	$ 2,090 million
Medical Equipment	$ 1,100 million
Telecommunications Equipment	$ 1,400 million
Aircraft and Airport Equipment	$ 350 million
Cosmetics	$ 800 million
Food Processing and Packaging Equipment	$ 725 million
Chemicals	$ 6,200 million

Most of these categories are compatible with California's comparative advantages in tourism and high-technology industries.

At the September 1994 summit in Washington, DC, Presidents Clinton and Yeltsin agreed to place new emphasis on expanding trade and investment. They signed a joint statement on a "Partnership for Economic Cooperation," which serves as a framework for reducing barriers to expanded economic cooperation. Russia enjoys NTR (Normal Trade Relations, formerly MFN) status and is working to join the WTO and OECD. The first stage of talks for WTO accession was completed in 1997, but Russia must address additional issues such as its import tariffs and other market access barriers before final membership is likely. The US is supportive of these efforts in due time. US agencies such as US AID and OPIC are very active in Russia. Despite Russia's disapproval with the recent NATO expansion, the US and Russia also continue to cooperate on strategic arms reduction, nuclear proliferation, chemical weapons bans and other key strategic issues.

Economic Policy and Framework

Today, the Russian economy more closely resembles a traditional third world economy than it does the Soviet industrial superpower it once was. In 1996, the number of Russians living below the official poverty line of $70 per month totaled 32 million or 22 percent of the population. After five years of reform, the life expectancy in Russia has fallen two years for women (74 to 72) and four years for men (62 to 58), putting it on par with Kenya.

Russia's current economic decline is even greater than that of the US economy during the Great Depression in the 1930s. The Russian economy has contracted every year since the fall of the Soviet Union; in 1993, the economy shrunk by 8.7 percent; in 1994, by 12.7 percent. The contraction took a short recess in 1997, when the GDP increased by 0.8 percent, but by the first half of 1998, the economy had shrunk again by 0.2 percent.

Note: Unlike the other country reports, the Russia report lists estimated *import* values, not estimated total market size.

There are some encouraging macroeconomic indicators. Inflation has dropped dramatically since 1992 when the annual inflation rate reached 2,324 percent. The 1997 rate was 11 percent, and it appeared that the government would meet its 1998 target of 5 to 7 percent until it effected a de-facto devaluation of the currency in August 1998. It is now likely not to meet that goal. Low inflation is due to an extraordinarily tight monetary policy with short-term interest rates of 60 percent. The official unemployment rate is also doing relatively well with 9 percent of Russians without jobs, a slight improvement over 1996's 9.3 percent figure. While this is high by US standards, it is significantly lower than the EU's average of 12.1 percent.

In September 1997, President Yeltsin announced a "New Economic Order" which called for a stronger role by the government in promoting economic growth, greater transparency in government transactions, and the creation of a federal treasury, among other steps. In his early 1998 state-of-the-nation address, Yeltsin named stable economic growth, an influx of investments, renewal of industry, and getting new tax regulations passed through parliament as top goals.

Yeltsin has been characterized by a tendency to waiver on policy, backing off when politically difficult tasks were at hand. However, his March 1998 sacking of the government of Viktor Chernomyrdin may signal a renewed commitment to an acceleration of structural reforms, made all-the-more necessary by the instability in international financial markets and IMF-mandated changes. The new government, headed by Prime Minister Sergei Kiriyenko, is considered to be somewhat more reform-oriented than the past one.

The economic agenda of Kiriyenko's government will likely work to strengthen the public finances by improved tax collection and privatization, reform the natural monopolies, and improve the institutional framework for the market economy. The main challenge, and one that has recently been carried out in high-profile police raids, is that of improving both the quantity and quality of tax revenue. Tax evasion, at both the business and personal level, is endemic, and it is common that tax payments are made in goods rather than cash. The government is aiming to break both of these patterns. Top priorities for improvements to the commercial framework are the creation of an effective bankruptcy mechanism, shareholder protection and land reform.

The Yeltsin government has considered privatization of state-owned enterprises and other entities to be a cornerstone in building a market economy. Russia has made significant inroads towards accomplishing its goals in this area. As of January 1994, 11,000 of Russia's approximately 14,500 medium- to large-scale enterprises had been privatized through voucher auctions, which reached a rate of approximately 600 per month. By mid-1994, approximately 80 percent of small shops and restaurants (establishments with under 200 employees) had been privatized. Currently, approximately 80 percent of Russian output comes from private companies.

Stock in some of the most promising Russian entities has been successfully sold to date. Nearly 50 percent of United Utility of Russia has been offered via open stock markets. Similar situations exist with companies such as Rostelecom, the organization which controls approximately 90 percent of domestic long-distance and international telephone traffic flows. Another example is the July 1997 sale of 25 percent in the Russian telecommunications giant, Svyazinvest, for $1.9 billion to a consortium of investors, with additional auctions taking place throughout 1998. In 1997, President Yeltsin also signed a decree on plans for privatization of Russia's natural monopolies, which includes power and gas enterprises as well as Russian railroads. By late summer 1997, actual privatization revenues exceeded expected revenues for the year.

The Russian government's emphasis on privatization continues. In November 1997, the Russian Ministry for State Property approved a list of 25 enterprises to be privatized in 1998 through individual auctions. During 1998, the Russian government also plans to begin the process of selling unused Russian military assets. The big privatization news for early 1998 has been the announcement that 75 percent will be sold through a commercial tender in the privatization of Russian oil company Rosneft. The authorities remain committed, however, to keeping the railroad network under state ownership despite the IMF's demands that it be broken up and sold off.

Russia suffers from a very high level of debt. External debt was $125 billion in 1996, and jumped significantly in 1997. Approximately $103 billion of this debt was inherited from the Soviet Union, with the remaining having accumulated since the break-up. Debt service in early 1998 claimed some 30 percent of federal budgetary expenditures. Given that this level of debt is unsustainable, the July 1998 $22.6 billion IMF rescue package calls for a 1999 budget deficit of 2.8 percent, down from 5.6 percent in 1998, 6.8 percent in 1997, and 7.7 percent in

1996. The government claims that this will be achievable by streamlining and enforcing the tax code and cutting expenditure. If the Duma refuses to cooperate, Yeltsin has vowed to push the reforms through by decree.

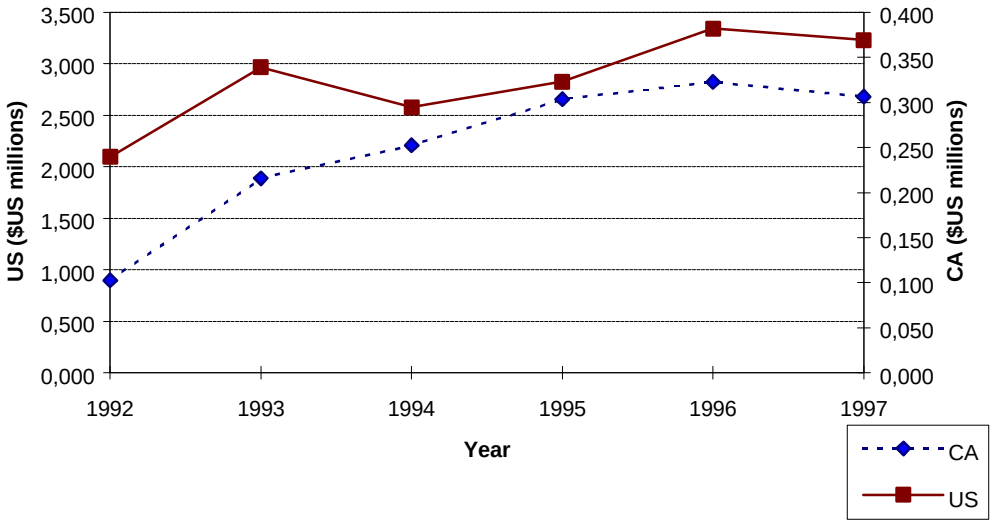
Tariffs and other trade barriers in Russia are still relatively high, and serve as one of the main sticking points in its WTO accession. The average weighted tariff is 13.3 percent. Onto the tariffs is tacked a 20-percent VAT charged on most imported goods. In addition, excise taxes are assessed on many imports, and there is inconsistency in import regulations and a lack of transparency which all serve to make exporting to Russia costly. Finally, frequent changes in customs regulations without warning and individual interpretation of Russian customs codes by each port of entry have caused delays and additional expenses. Of special interest to California is the fact that certification is required for telecommunications equipment, and often takes 12-18 months to complete by Russian authorities.

Ministries and government agencies are frequent purchasers of equipment, goods and services for their own needs. In April 1997, the government established procedures for public tenders for some government procurement. A procurement bill, based on competitive bidding, is also being considered in the Duma. While domestic suppliers are not accorded any official advantages or privileges in competing for government procurement, the strong political bias toward supporting domestic industries probably works in favor of Russian suppliers.

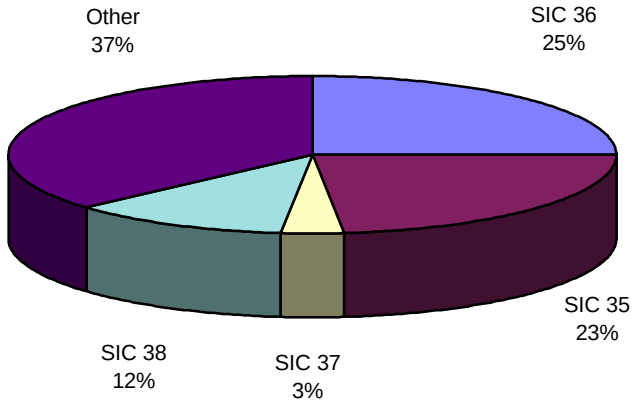
The Russian situation regarding IPR is generally poor. Since 1992, the government has put into place the framework needed to bring the country up to modern standards in the area of IP protection, and the US-Russia Bilateral Trade Agreement also requires Russia to provide high standards of protection for IP. However, enforcement of the laws has been limited. Piracy of US video cassettes, films, music, recordings, books, and computer software is rampant, and Russia has yet to provide protection as required by international agreements to pre-existing US copyrighted works. Administrative and judicial review bodies are only beginning to become active in IPR protection. In April 1997, Russia was placed on the Special 301 “priority watch list.” Russia is a member of the Paris Convention, the Universal Copyright Convention, the Geneva Convention, and the Berne Convention.

Statistical Appendix

Total US and CA Exports to Russia: 1992-1997



High-Tech Exports to Russia as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:
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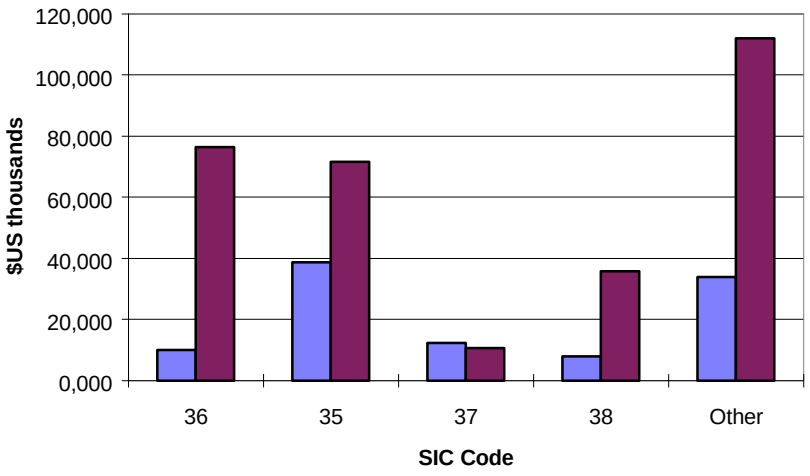
SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

CA High-Tech Exports to Russia by Industry: 1992 vs. 1997



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C. Western Europe

1. France

Background

As the largest country in Europe geographically, France sits at the hub of the EU, a customs union with more than 350 million consumers. With a population of more than 58.3 million, France is home to the second largest consumer market in Europe behind Germany with per capita income of $21,510 (Purchasing Power Parity). French GNP totaled $1.53 trillion in 1996 making it the world's fourth largest economy, considerably smaller than German GNP of $2.4 trillion, but larger than the UK or Italy. Relations between the US and France are active and cordial. Notwithstanding occasional disagreements, the US and France work together on a broad range of trade, security and geopolitical issues. France is a founding member of the EU and a member of the Group of Seven (G-7) Industrial Countries, UN, OECD, NATO, and WTO.

Executive power in France is held by the president who appoints a council of ministers. Legislative power is held by the bicameral parliament, comprising a Senate and a National Assembly. The Senate has 321 members, elected for a nine-year term by an electoral college composed of the members of the National Assembly and Municipal Councils.

On June 1, 1997, with an outcome that few expected, the Socialist Party ousted the conservative coalition and Prime Minister Alain Juppe. The new coalition, made up of the Socialists, Communist Party and Green Party, appointed Lionel Jospin as the new prime minister. The Socialist Party won the election by playing on the fears of the French people regarding rising unemployment and public spending cuts by promising to create jobs, raise wages, cut the work week and loosen EU austerity measures. Jacques Chirac of the conservative Gaullist Party was elected president of France in May of 1995. President Chirac continues to warn the Socialist government not to slow privatization or obstruct the private sector. Nonetheless, privatization has slowed down, but there is no question that France will be among the first group of countries to join EMU.

California and US Ties with France

France is the United States' tenth largest export market, importing $16 billion of US goods in 1997, an increase of 11 percent. France is already an important trade partner for California, ranking as the Golden State's thirteenth largest export market. In 1997, California shipped $2.5 billion in exports to France, a slight increase over 1996. The strongest export sectors continue to be industrial machinery and computer equipment, primary metal industries, electronics and electrical equipment, and scientific instruments. According to the US DOC, the estimated market size of leading sectors is:

Sector	**1998 Market Size**
Travel and Tourism	$ 89,987 million
Computer Software	$ 25,181 million
Industrial Chemicals	$ 47,600 million
Employment Services	$ 13,928 million
Electronic Components	$ 6,116 million
Computers and Peripherals	$ 10,214 million
Insurance Services	$159,276 million
Security and Safety Equipment	$ 6,433 million
Electrical Power Systems	$ 11,714 million
Laboratory Scientific Instruments	$ 2,518 million

France ranks as the state's sixth largest foreign direct investor. In 1995, French investment in California (property, plant and equipment) totaled $4.6 billion or nearly 5 percent of the total. French affiliates account for 31,600 jobs or 5.8 percent of all jobs created by foreign investment in California. Many French firms see closer ties with the US as the best way to combat the heightened internal competition that economic union has ignited. Opportunities for partnerships exist in many areas, including biotechnology, audiovisuals, information technology, energy, and telecommunications. Led by corporate giants that range from Apple Computer to Xerox, the US has become the largest foreign investor in France, accounting for almost 25 percent of total investment. American investments include not only manufacturing operations, distribution centers and commercial outlets, but also research and development centers and European headquarters.

California also maintains ties with France in other areas. In 1990, the California Senate passed Senate Concurrent Resolution 115 (authored by Roberti) which established a sister-state agreement between California and the Provence-Alpes-Cote d'Azur region of France. In addition, several local communities have established independent relationships with various regions and cities in France. In 1996, 987,268 or 4.4 percent of total US visitors were from France. Of those 4.4 percent, 295,000 visited California. This represents 4.9 percent of all foreign visitors who visited California. France ranks third in Western European visitors to California. (Overseas Visitors to California 1996.)

Economic Policy Framework

French GDP growth was only 1.3 percent in 1996, but jumped to 3.2 percent for 1997 and continued growing at a brisk 3 percent midway through 1998. The Socialist government brings new challenges to the economy and to France's convergence to the Euro in 1999. Prime Minister Jospin is attempting to fulfill campaign promises by increasing public spending while simultaneously meeting Maastricht Treaty criteria by cutting the budget. The 1999 budget seems to have simultaneously served both the small business community and satisfied the Communist Party coalition partners. The budget lowers taxes on small businesses, but increases them for big businesses. Overall, there is a small increase in spending while the budget deficit should fall to 2.3 percent, well under the 3-percent ceiling imposed by Maastricht Treaty criteria.

Unemployment is a significant problem for France. As of July 1998, the unemployment rate was 11.9 percent, an improvement over the 12.5 percent of one year earlier. The new budget foresees the creation of 400,000 new jobs during 1999. However, the ruling Socialist Party passed legislation in April 1998 to reduce the workweek from 39 hours to 35. The law states that companies with more than 20 employees must set a limit of 35 hours beyond which overtime is to be paid. The legislation goes into effect on January 1, 2000, and two years later for those firms with fewer than 20 employees. Many analysts believe that the impact will be limited, while some believe it will lead to higher unemployment. Inflation currently sits between 1 and 2 percent.

The prospects for further privatizations are uncertain. The Communist side of Jospin's coalition, upon whom he depends for a parliamentary majority, has been growing restless, and have already voted against the government on several occasions. They are particularly annoyed that the government has shrunk from giving big boosts to the minimum wage (2 percent instead of the Communist-demanded 24 percent) and welfare handouts. In order to maintain his majority, Jospin may be forced to hold off on much liberalizing reform. In fact, in early June 1998, the government announced that it would not sell a majority stake in Aerospatiale, and in late May, the head of Air France said that the partial privatization had been put off to the end of the year. Necessary reforms include public-sector pension plans, France's complex and unfair tax system, and a deregulation of public services.

French duties levied on imports from non-EU countries, including the US, are moderate. Most raw materials enter duty-free or at low rates, while most manufactured goods are subject to rates of between 5 to 17 percent. Most agricultural product imports are covered by the Common Agricultural Policy (CAP),

under which many items are subject to variable levies designed to equalize the prices of imported commodities with those produced in the EU.

US companies sometimes complain of France's complex technical standards and of unduly long testing procedures. Testing requirements (which must usually be done in France) and standards sometimes appear to exceed reasonable requirement levels needed to assure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment, medical/veterinary equipment/products, and agriculture phytosanitary standards.

The 1989 EC Broadcast Directive requiring a "majority proportion" of programming to be of European origin was incorporated into French legislation on January 21, 1992. France, however, specifies a percentage of European programming (60 percent) and French programming (40 percent). These broadcast quotas were approved by the EC Commission and became effective on July 1, 1992. They are less stringent than France's previous quota provisions which required that 60 percent of all broadcasts be of EC origin and that 50 percent be originally produced in French. The new 60-percent European/40-percent French quotas are applicable throughout the day, as well as during prime-time slots. The prime-time rules go beyond the requirements of the EC Broadcast Directive and limit the access of US programs to the French market.

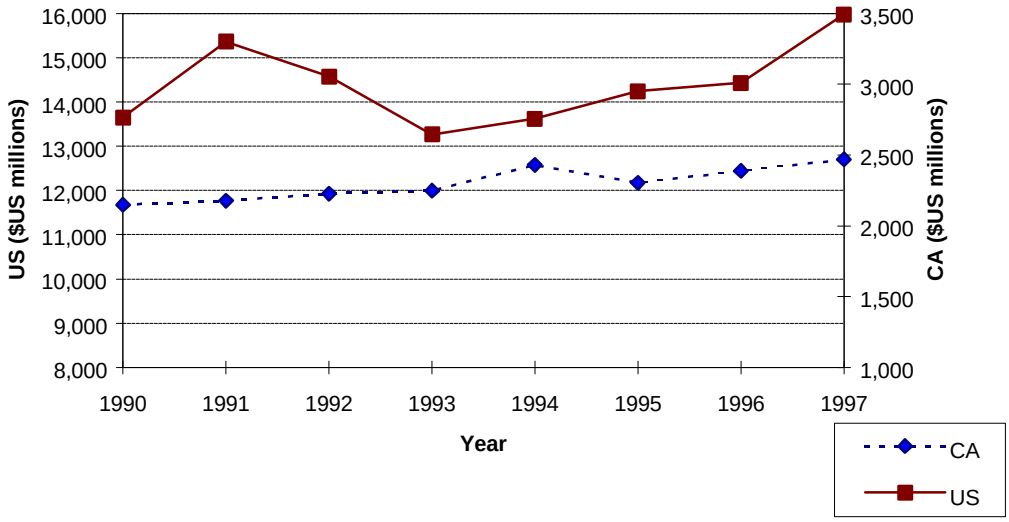
On the investment side, there are no restrictions or administrative controls on outward capital flows including outward direct investment. There are restrictions on private investment for non-EU investors in regards to privatization that applies to national defense, public safety or public health. Investors that seek to own more than 5 percent of outstanding shares of a privatized company in the health, security or defense sectors have to receive approval from the Ministry of Economics. The government treats foreign investors differently from domestic investors in other significant industries such as agriculture, aircraft production and telecommunications.

France is a strong defender of IPRs worldwide and does not pose a problem for California exporters. By virtue of the Paris Convention and the Washington Treaty regarding industrial property, US nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, US nationals have a "right of priority period" after filing a US patent, trademark, design or model, in which to file a corresponding application in France. This period is twelve months for patents and six months for trademarks, designs and models. US right holders, however, are not entitled to duties collected on blank tapes to compensate for the private or home copying of their works.

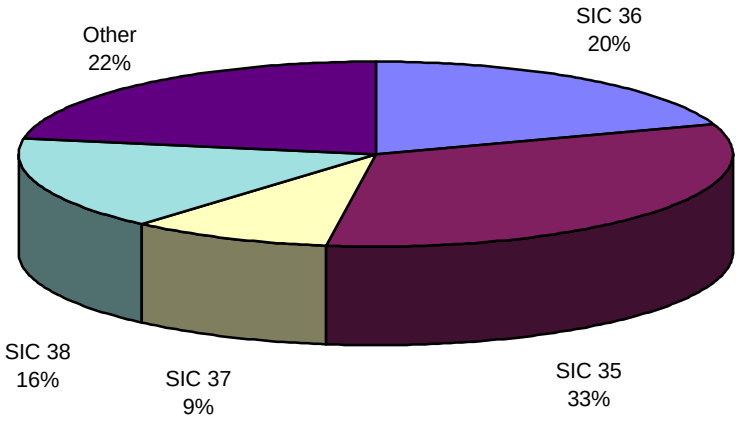
With regard to government procurement issues, the French government generally pursues policies in accordance with the WTO GPA and EU regulations, which call for nondiscrimination vis-a-vis foreign firms. The telecommunications industry is not covered under the GPA. France allowed 100-percent indirect investment in all telecommunications services, but retained 20-percent direct investment limit for radio-based service and a limit on investment in France Telecom. The US government is continuing to pursue the opening of EU telecommunications procurements. In France, procurement regulations do not usually present barriers to entry for foreign firms, however, local political pressure and administrative procedures often favor French companies.

Statistical Appendix

Total US and CA Exports to France: 1990-1997



High-Tech Exports to France as Percentage of Total CA Exports in 1997



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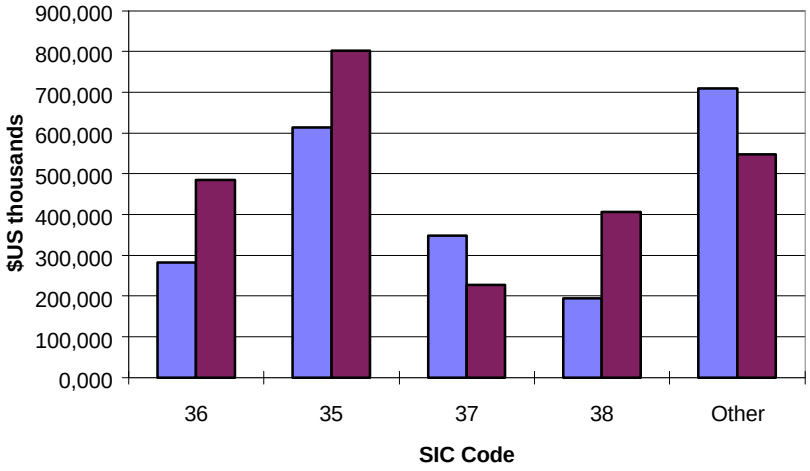

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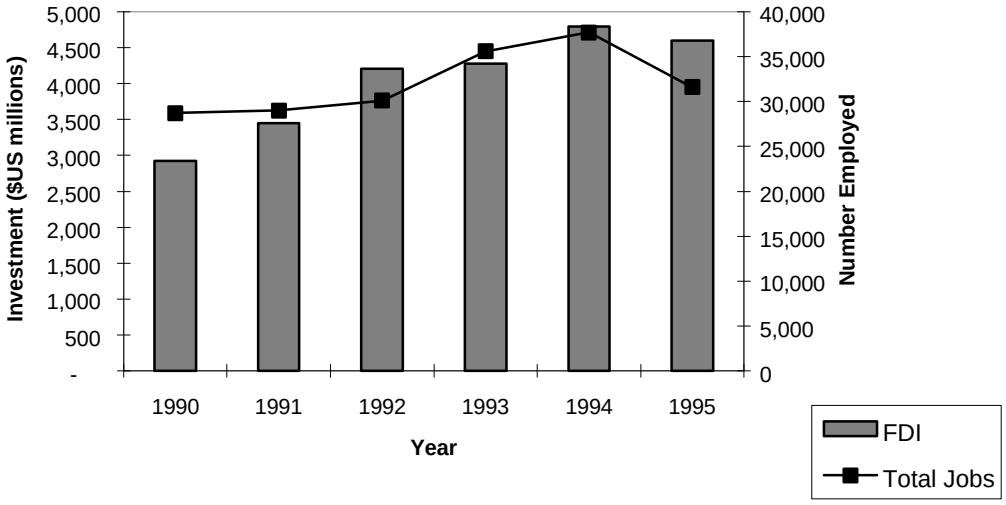
Foreign Direct Investment from France to CA and Resulting Employment



2. The Netherlands

Background

With a rich history as a world power and global sea-faring nation, the Netherlands remains as one of the world's top trading nations. Ranking as the world's thirteenth largest economy, the Netherlands is a member of the EU, OECD and NATO. The Dutch represent the largest English speaking population in Continental Europe and the most multilingual people in the world. Despite the Netherlands' apparent compatibility with American industry, it has a relatively small consumer market of 15.6 million people, less than half the size of Spain. Dutch GNP totaled $402.5 billion in 1996, considerably smaller than French or Italian GNP, each of which is greater than $1 trillion.

The Netherlands is a parliamentary democracy under a constitutional monarch. The Monarch, Queen Beatrix, is the titular head of state; however, the council of ministers is responsible for government policy. The Dutch Parliament consists of two houses; the First and Second Chambers. The Second Chamber is the more influential of the two chambers. While the First Chamber can neither initiate nor amend legislation, it must approve all legislation passed by the Second Chamber before it becomes law.

The "purple coalition," a three-party government consisting of the left-leaning Labor Party, right-leaning Liberal Party and center Christian Democrat Party, currently governs the Netherlands. The Labor Party appointed Willem Kok prime minister in August of 1994 with new elections expected for 1998. The sizable budget deficit has led all parties to call for significant budget cuts, particularly in disability and pension benefits. Avenues are also being explored for keeping health care costs down. Also on the government's agenda are plans to address the country's heavy social welfare burden and reduce the rigidities in the employment system that limit business flexibility in responding to changing economic conditions.

California and US Ties with the Netherlands

Historically, the Netherlands has had a close bilateral relationship with the US encompassing a full agenda of political, economic, military, and social issues. The Netherlands is the eighth largest importer of goods and services from the US, and third in investment in the US behind the UK and Japan. The Netherlands' strategic location and the relative ease of doing business make the country an ideal European operations location for many American companies.

In 1997, the US exported $19.8 billion, a 19.2-percent increase over 1996 levels. The United States' $12.8 billion trade surplus with the Netherlands was the largest bilateral trade surplus with any country. By April 1998, the US had exported $6.6 billion to the Netherlands with a surplus of $4.3 billion. According to the US DOC, more than 50 percent of US exports to the Netherlands are transshipped to the rest of Europe. In 1997, California exports experienced a 40-percent jump over 1996 levels; however it should be noted that 1996 registered a 25-percent decline from 1995 making the increase from 1995 to 1997 only 5 percent, not accounting for inflation. The Netherlands was California's tenth largest export market ahead of Malaysia and behind Germany, shipping $3.4 billion in 1997 and $1 billion in the first quarter of 1998. California should benefit from strong markets for computer software, biotechnology, telecommunications equipment, telecommunications services, and computers and peripherals. Californians should also benefit from Dutch interest in wines.

According to the US DOC, the top ten best prospect sectors for US exporters to the Netherlands are:

Sector	Estimated 1998 Market Size
Computer Software	$ 2,485 million
Telecommunication Services	$ 10,400 million
Computer Services	$ 3,050 million
Computers and Peripherals	$ 5.240 million

Aircraft, Parts & Supplies	$ 950 million
Medical Equipment	$ 1,155 million
Electronic Components	$ 1,120 million
Telecommunications Equipment	$ 950 million
Automotive Parts & Service Equipment	$ 3,911 million
Travel & Tourism Services	$ 8,299 million

Besides trade, the Netherlands is the second largest direct investor in California behind Japan. Investment by the Netherlands in California in 1995 totaled $11.92 billion. This investment directly employs 24,200 people in California - 0.2 percent of the total state work force. The Netherlands is the fifth largest destination for US FDI. Some 1,800 US companies have invested close to $37 billion in the Dutch economy. Of the 210 US Top 500 companies with distribution centers in Europe, 49 percent are located in the Netherlands. Dutch leisure and business travelers contribute almost $1 billion annually to the US economy, which makes the Netherlands the thirteenth largest source of travel and tourism revenue in the US. Also, in 1996, 175,000 Dutch visited California comprising 2.9 percent of the total foreign visitors to California and 39.8 percent of Dutch total visitors to the US.

Economic Policy Framework

The Netherlands is one of the most prosperous economies in Europe. The economy is dependent on foreign trade and is characterized by stable industrial relations fostered through consultations among industry, unions and government, a large surplus in external balances from trade and overseas investments, natural gas exports (which make Holland a net exporter of a fuel increasingly in demand), and a geographic location as a European transport hub with the world's largest port, Rotterdam. Dutch trade and investment policies are among the most open in the world. This openness creates fierce competition that can make market access difficult. The state dominates the energy sector and plays a large role in transport, chemicals, aviation, telecommunications, and steel. The recent addition of VVD, a free-market, supply-oriented party, to the ruling coalition ensures that the government will continue expanding free-market reforms and further liberalizing the economy.

The Dutch economy grew by 3.0 percent in 1997 and is expected to grow by an additional 3.25 percent in 1998. (Note: This estimate is based on pre-Asia crisis assumptions.) The principal factor in the growth was the higher level of domestic consumer spending, which was partly due to the sharp rise in employment. Despite the moderate growth of the economy in the most important export markets, exports of goods also increased. Furthermore, exports of services rose even faster than the export of goods. Industry's turnover improved by 3 percent, primarily due to better results on the domestic market than abroad. As a result, business investment increased sharply once again. The improvement in the Dutch economy generated higher tax revenues and enhanced the financial position of the Dutch government.

Inflation reached 2.75 percent in 1997 and is expected to drop to 2.0 percent for 1998. The budget deficit dropped to 2.1 percent of GDP in 1997 and is forecast to be brought down to 1.6 percent by the end of 1998. The only problem facing Dutch economists is government debt which was 73.4 percent of GDP in 1997. While this is an improvement over the 79.7 percent recorded in 1996, it remains above the 60-percent maximum embodied in the Maastricht Treaty. However, with debt dropping every year, the Dutch were offered membership in the European Monetary Union (EMU), based on a clause in the treaty allowing for sufficient decline to establish a clear downward trend.

The Netherlands is an excellent place to do business. Due to its stable political and macroeconomic environment, a highly developed financial sector, the existence of a high-quality labor force, the Economist Intelligence Unit ranked the country first in the quality of the business environment. The Netherlands is also considered to be a hub of European business. Over 160 million consumers (half the population of the EU, live within a 300-mile radius of Rotterdam. Finally, the country boasts a world-class and user-friendly transportation and distribution infrastructure.

Although the export sector of the Dutch economy is open and free of competition restraints, cartels, bid rigging, and price fixing exist in the domestic economy. Cartels have been legal in the Netherlands if accepted for registration by the government. Cartel arrangements include price fixing both by product area and by distributor to retailer, as well as restrictions against market entry, restrictions on sales territories and sales quotas. In order to comply with EU requirements and to curtail cartel activities, the government introduced legislation in 1993 which bans horizontal price-fixing activities. Nevertheless, the government is under pressure to do more and the trade minister's promise to solve the problem by 1993 has not materialized. Therefore, cartels continue to be a potential threat to firms seeking to do business in the Netherlands.

Relatively few trade complaints are registered by US firms against Dutch firms. The Dutch tendency to support a level playing field in trade matters and their depth of experience in trade positions them as genuine “neutral” traders of Europe. US companies locating in the Netherlands however will come up against a complex business culture in which companies, trade unions, government bodies and industry associations engage in constant and close consultations. This comes in part from the traditional Dutch emphasis on achieving consensus and avoiding conflict in this small and densely populated country. There is also a growing trend, particularly in larger government procurements, to “buy European” if not Dutch.

Central government procurement is generally open and transparent and in compliance with the EU Procurement Directive and the WTO Government Procurement Agreement (GPA). Transparency and enforcement in this area can be deficient, however, especially with regard to public notification of tenders by local authorities and offset or local content requirements. The EU Utilities Directive is one example which could be of concern because of its provisions allowing preferences for high EU-content bids in the telecommunications and energy sectors. This includes the large market for goods and services to the Dutch oil and gas sector. Up to now, only Dutch entities have been allowed to compete with the Dutch PTT for a second national network.

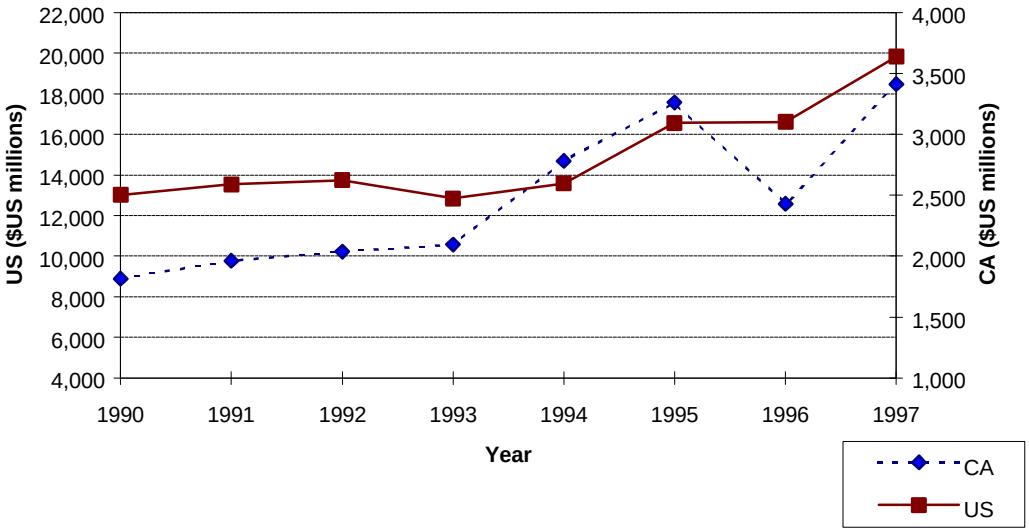
The Dutch government maintains liberal policies toward FDI, and adheres to the OECD investment codes, with exceptions for its export credit and investment guarantee programs. Otherwise, with the exception of public and private monopolies (military production, aviation, shipping, distribution of electricity, gas and water, railways and radio and television broadcasting), foreign firms are able to invest in any sector and entitled under the law to equal treatment with domestic firms. The Dutch government has opened the telecommunications sector to foreign participation but notes that infrastructure for the planned second national network will remain Dutch owned.

The Netherlands has a generally good record on IPR protection with the exception of the enforcement of anti-piracy laws. Enforcement of anti-piracy laws remains a concern to US producers of software, audio and video tapes and textbooks. The Dutch government has recognized the problems in protecting international property and has slated legislation to include computer software as intellectual property under copyright statutes.

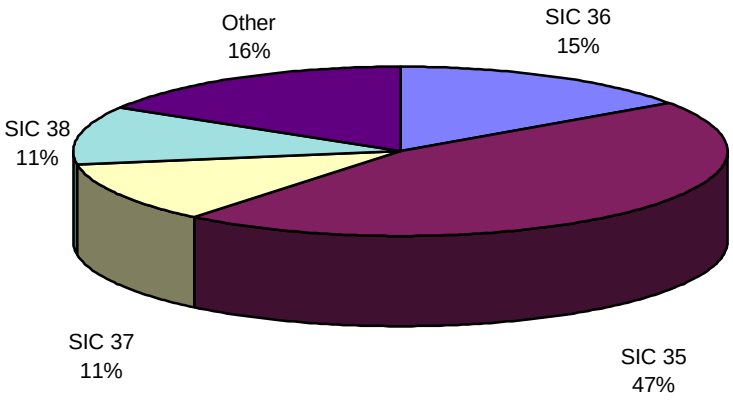
The Netherlands belongs to the WIPO. It is a signatory of the Paris Convention for the Protection of Intellectual Property and conforms to accepted international practice for the protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. The Netherlands is also a signatory of the European Patent Convention which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to US investors and exporters.

Statistical Appendix

Total US and CA Exports to the Netherlands: 1990-1997



High-Tech Exports to the Netherlands as Percentage of Total CA Exports in 1997



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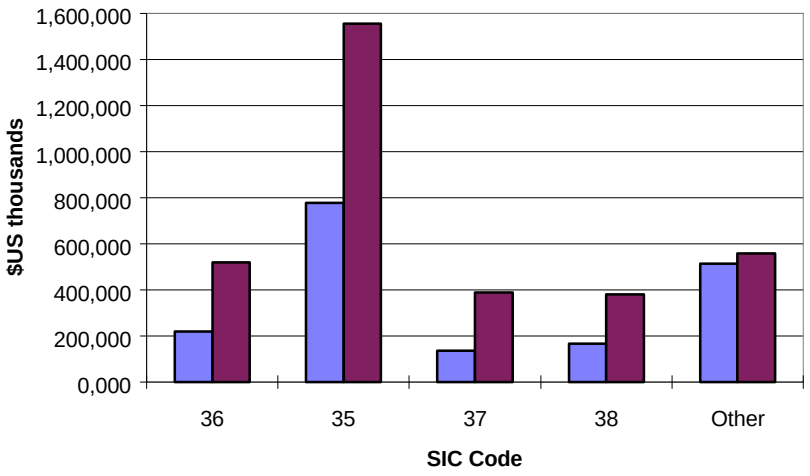
CA High-Tech Exports to the Netherlands by Industry: 1990 vs. 1997



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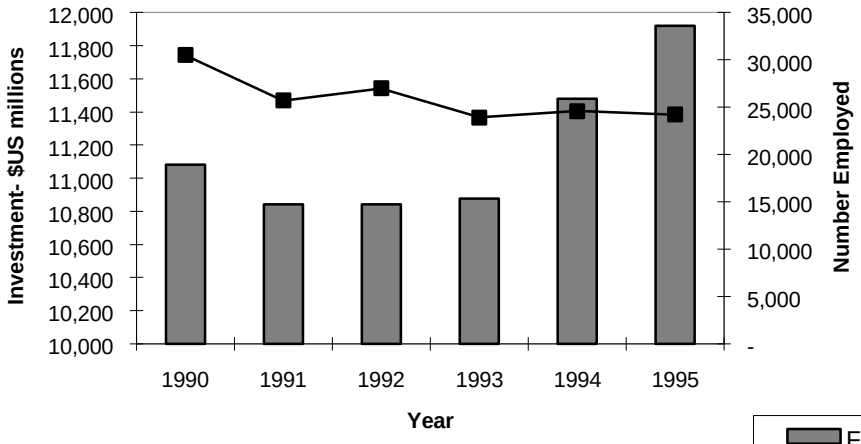
Foreign Direct Investment from the Netherlands to CA and Resulting Employment



* Investment data not disclosed for 1988.

3. Italy

Background

Italy is one of the world's leading industrialized powers with a population of approximately 57.5 million and per capita GNP of $19,020. Boasting the world's sixth largest economy, Italy is home to the third largest consumer market in Europe after Germany and France. Italian GNP totaled $1 trillion in 1997, twice the size of Spanish GNP, but considerably smaller than German GNP of $2.3 trillion. Italy is a member of the EU, WTO, G-7, NATO, OECD, UN, and other international organizations. Italy maintains a strong commercial and strategic relationship with the US.

Italy is a republic whose government is divided into three spheres of power: parliament, government (which performs the executive function) and the judiciary. The Italian parliament is bicameral, consisting of the chamber of deputies and the Senate. The president of the Republic and the Constitutional Court help to maintain an equilibrium between the branches. The prime minister is the leading figure in the government and derives his power from chairing the council of ministers, which serves as the president's cabinet. The Italian government is composed of many diverse political parties. The most recent government, elected in April 1996, is led by Romano Prodi and his center-right Olive Tree Alliance.

California and US Ties with Italy

In 1997, US exports to Italy totaled $9 billion, a 2.14-percent increase from 1996. Italy was the United States' seventeenth largest export market. After a significant decrease of 24 percent in exports for the year 1996, California rebounded in 1997. California exports totaled $1.2 billion in 1997, a 5-percent increase from 1996. Italy is California's ninteenth largest export market ahead of Belgium, but behind Brazil.

According to the US DOC report, the following are the top ten sectors in Italy for potential market growth:

Sector	**Estimated 1998 Market Size**
Insurance Services	$45,800 million
Computer Services	$ 5,400 million
Pollution Control Equipment and Services	$ 4,190 million
Sporting Goods and Recreational Equipment	$ 5,200 million
Electrical Power Systems	$ 6,580 million
Computers and Peripherals	$ 5,350 million
Industrial Process Controls	$ 3,700 million
Aircraft and Parts	$ 6,150 million
Telecommunications Equipment and Services	$34,788 million
Franchising	$10,700 million

California should benefit from markets for aircraft and parts, airport and ground support, and especially from the computer, telecommunications and electric component markets. California should also benefit from the growing Italian preference for fresh and frozen food items, foreign wine, and the large increase in Italian consumption of bottled drinks such as iced tea and beer.

Besides trade, California has several additional key ties with Italy. Foreign investment from Italy has more than tripled in value from $109 million in 1987 to $350 million in 1995. This investment directly employs 5,200 people in California. In 1996, 159,000 Italians visited California comprising 2.6 percent of total tourism to the state and 30.2 percent of total Italian tourists visiting the US. Finally, according to

the 1990 Census, California has a population of almost 1.5 million persons of Italian descent. The state also has many Italian-American cultural ties and organizations.

Economic Policy Framework

Italian economic policy in 1996 and 1997 has been entirely focused on meeting Maastricht Treaty criteria for convergence to the Euro on January 1, 1999. The Maastricht Treaty, signed in February 1992, set the following guidelines for participation in the EMU: 1) budget deficit of 3 percent of GDP; 2) public debt less than 60 percent of GDP; and 3) annual inflation at less than 1.5 percent.

Prime Minister Prodi staked his future on Italy qualifying to join the EMU in the first round and tightened fiscal policy dramatically to meet these goals. And after years of uncertainty about whether Italy's public finances restructuring was genuine or staged, Prodi earlier this year convinced his EU counterparts that cutbacks in the budget deficit are sustainable—thereby guaranteeing Italy's entry into the first wave of the EMU. Italy's confirmation into the EMU has bred a sense of confidence and assurance in the country's economy. For instance, Italy's GDP is expected to grow 2.2 percent this year to $1.2 billion. Moreover, the Financial Times estimates that the country's GDP will grow an addition 2.6 percent in 1999 to $1.3 billion.

It is worth noting that Prodi was able to achieve EMU accession in spite of the fact that Italy has not met all Maastricht guidelines. Italy has a budget deficit 2.6 percent of GDP, while its public debt is forecast at 119 percent of GDP for 1998. Also, inflation is expected hover around 1.8 and 1.9 percent for 1998 and 1999, respectively. Italian Treasury Minister Carlo Azeglio Ciampi's recently approved budget, however, has been lauded as one which will balance the demands of the EMU. The plan pledges to reduce the country's debt burden as a proportion of GDP over the next three years. Also, Ciampi's budget pledges that it will maintain a significant primary surplus—the difference between revenues and expenditure excluding debt repayments—of 5.5 percent of GDP for the next three years. Finally, the plan promises to reduce Italy's debt to GDP ratio from 121.6 percent in 1997 to 107 percent by 2001, partly by declining interest rates as Italy enters the Euro.

The current optimism notwithstanding, the Italian government is not wholly without its problems. Most notably, the Prodi government has been continually facing problems stemming from the sharp divide between the north and the south. The Northern territories of Italy remain one of Europe's richest regions while the south continues to be mired in poverty. GDP per person in the south is 57 percent less than in the north. The failure by the Italian government to converge two economies into one continually forces them to strike a balance between sending trillions of lira in aid to the south while reducing burdens for the wealthy in the north. Moreover, in an effort to join EMU, Prodi has inadvertently perpetuated the problem by cutting public spending and closing state-owned enterprises, which has eliminated jobs and created more problems in southern Italy. Future economic policy will have to focus on the growing divide in order for Italy to achieve any real stability in the near future.

Also, Italy suffered a considerable setback with the collapse of the 15-month long attempt to create a new constitution to replace its moribund 1948 constitution. The failure of this project was due to an irreconcilable rift between Massimo D'Alema, the leader of the ruling Democrats of the Left, and Silvio Berlusconi, the leader of the conservative Forza Italia. In effect, the end of these negotiations have raised the question of whether Italy will every acquire the long-term political stability that it needs in order to remain competitive in the EMU.

Significant barriers to FDI also exist. While Italian officials encourage foreign investment, industrial projects require a multitude of approvals and permits from the many-layered Italian bureaucracy. Foreign investments often receive close scrutiny and lengthy procedures can, in and of themselves, present extensive difficulties for the foreign investor. The EU financial market directive of 1996 opened foreign investment to US financial service providers, permitting US companies to trade on the Italian exchange

without prior investment in an Italian subsidiary. The government still maintains strict control of STET, the Italian phone company with no plans in the near future for privatization.

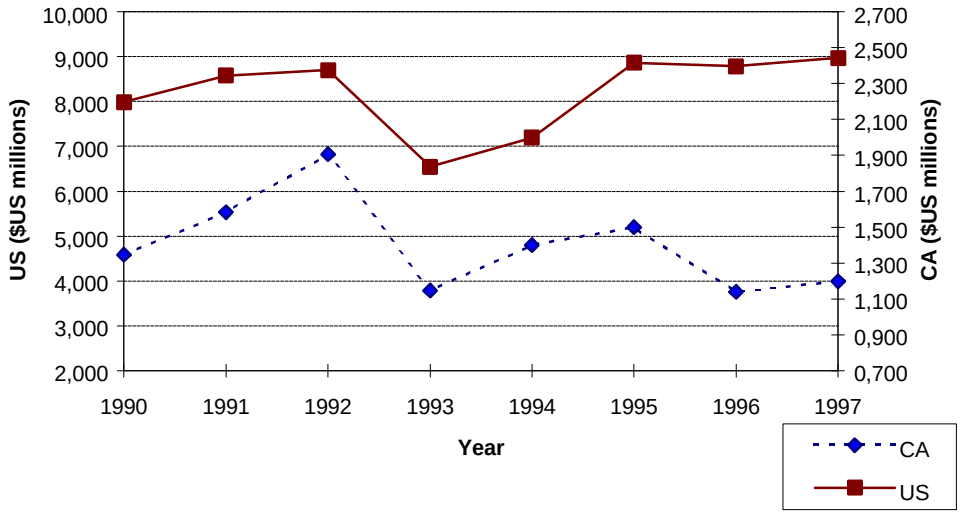
Government procurement is fragmented, underpublicized and almost impossible to access by US exporters without a good Italian representative. Despite progress achieved over the course of 1996, Italy has not fully implemented its government procurement obligations under either the WTO agreement or the EU directive. Corruption, especially at the local level, is still regarded as a significant problem in the public procurement process. Although not officially stated, there is strong "Buy Italy" pressure from the electronics industry to increase the percentage of Italian-made electronics and computer equipment in the central government modernization plan.

With regards to IPR protection, Italy is a member of the Paris Union International Convention for the Protection of Industrial Property (patents and trademarks) to which the US and about 85 other countries adhere. US citizens are entitled to the same treatment as an Italian company in acquiring and maintaining patent and trademark protection. Italy is also a member of the Berne Copyright Union and adheres to the Universal Copyright Convention to which the US and 50 other countries are signatories. US authors can thereby obtain copyright protection in Italy for their work first copyrighted in the US merely by placing on the work, their name, date of first publication, and the symbol. In turn, Italian authors have the same rights in the US for works first copyrighted in Italy.

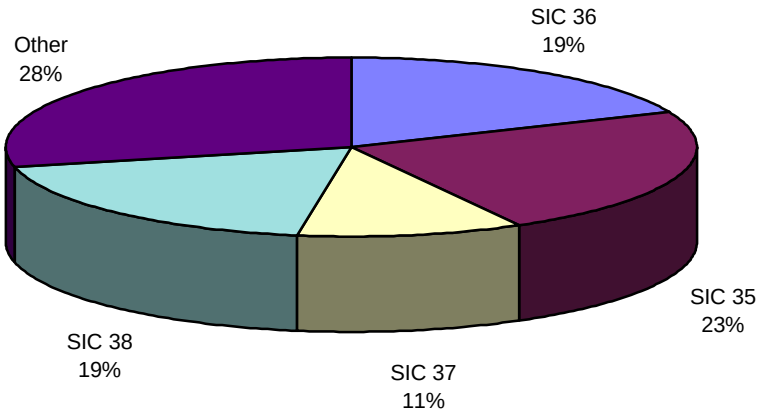
Since 1989, Italy has been on the USTR's IPR "watch list" under the Special 301 Provision of the 1988 trade law. This reflects the widespread problems in Italy with protection of copyrighted audio and visual material and computer software. Recently, Italian authorities have shown a much greater sensitivity to the need for action in these areas, and considerable progress has been made, including a March 1996 law raising criminal penalties for software piracy. Computer software piracy remains a problem despite having fallen from 58 percent to 43 percent in 1997. Italy plans to enact the EU copyright terms to 70 years. This should aid in the crackdown on the piracy of videos which the US estimated at 30 percent in 1997. Piracy of musical recordings is also a problem. In 1997, pirated musical products comprised 20 percent of the Italian market, down slightly from 22 percent in 1996.

Statistical Appendix

Total US and CA Exports to Italy: 1990-1997



High-Tech Exports to Italy as Percentage of Total CA Exports in 1997



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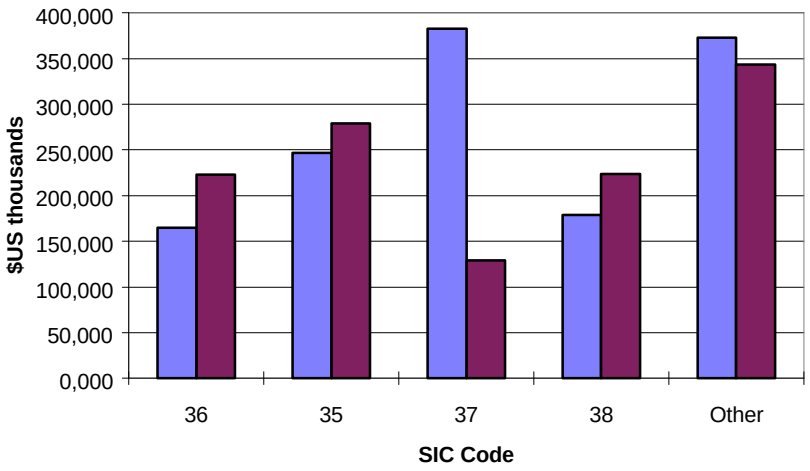

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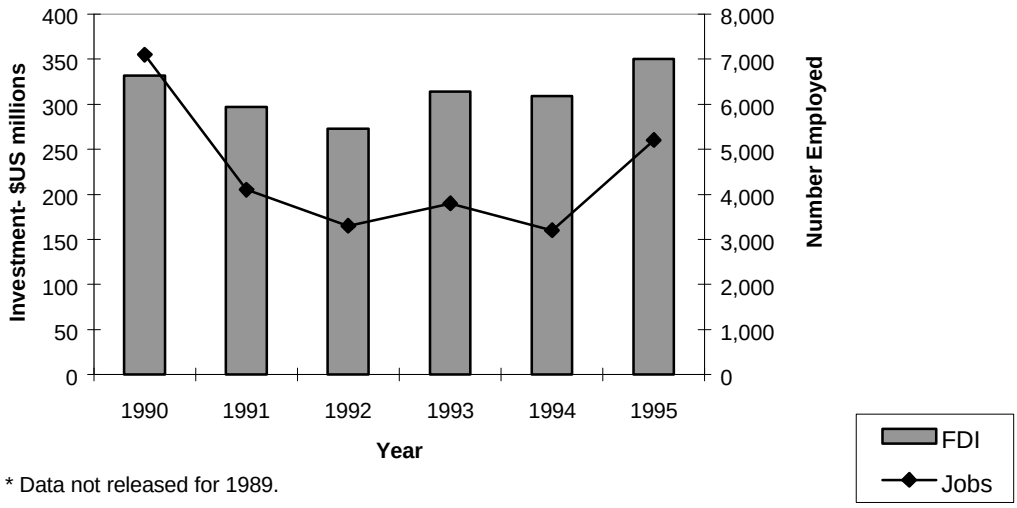
Foreign Direct Investment from Italy to CA and Resulting Employment



* Data not released for 1989.

4. Spain

Background

Spain and the US enjoy an excellent bilateral relationship. The governments cooperate closely on a broad range of issues and are allies in NATO. With a consumer market of 39 million people, Spain is more than twice the size of the Netherlands, yet considerably smaller than France or Italy. Per capita income has risen to $14,520 with annual growth of 1 percent from 1990 to 1996. Spanish GNP totaled $563 million in 1996, substantially greater than the Netherlands, but half the size of Italian GNP that reached $1 trillion.

Based on its 1978 constitution, Spain is a parliamentary democracy under a constitutional monarchy. King Juan Carlos I was at the helm of the Spanish transition to democracy in early 1976 and currently plays a more diplomatic role. Following the March 1996 general elections, the center-right People's Party (PP) took power from the Spanish Socialist Workers Party (POES) who now form the opposition. The new government, led by Prime Minister Jose Maria Aznar of the PP, is determined to do whatever is necessary to reduce Spain's burgeoning unemployment rate of 21 percent in 1996, one of the highest amongst EU countries.

The Socialists or PP rule in all 17 autonomous governments (similar to states) except Catalan, the Basque country, Aragon and the Canary Islands. Reforms are underway to transfer further authority to these autonomous governments. The Basque country currently holds the most autonomy, only remitting taxes for the military. With the autonomy to collect their own taxes, the Basque country has upgraded and modernized infrastructure and created investment packages that make the region more lucrative for investment than the rest of Spain. Since 1968, a separatist terrorist group from the Basque country, ETA, has targeted government officials, buildings and military personnel, killing an average of about one person a month. Following a brief attempt at cooperation with the Aznar government, ETA has recently increased their activity. Prime Minister Aznar is committed to ending the reign of terror by isolating the ETA.

California and US Ties with Spain

Overall, Spain ranked as the twenty-fifth largest market for US goods in 1997, with US exports to Spain increasing 1.1 percent to $5.5 billion. In 1997, California merchandise exports to Spain totaled $681 million, a 3.4-percent decrease over 1996 levels. This made Spain California's twenty-third largest export destination. California's primary exports to Spain were industrial machinery and computer equipment, electronics and electrical equipment, and instruments and related products.

According to the US DOC, the best prospects for US businesses in Spain are the following:

Sector	Estimated 1998 Market Size
Pollution Control Equipment	$12,562 million
Franchising	$6,800 million
Computers and Peripherals	$3,583 million
Aircraft and Parts	$1,785 million
Electric Power Systems	$2,170 million
Telecommunications Services	$13,768 million
Medical Equipment	$1,850 million
Building Products	$14,905 million
Architectural, Construction, Engineering Services	$1,411 million

Spanish FDI in California has more than doubled in value from $52 million in 1988 to approximately $112 million in 1995, directly employing 2,100 people in the Golden State. Regardless, this level of investment is small compared to the amount of investment from other European nations. Also, in 1996 there were 60,000 visitors from Spain that came to California comprising 1 percent of the total visitors to California**.**

Economic Policy

Accession to the EMU has taken the dimensions of a national ambition. With most goals strictly short-term, long-term planning has been put on hold. Spain's accession to the EU in 1986 established the framework for its subsequent economic performance. EU membership has required Spain to open its economy, modernize its industrial base, improve its infrastructure and revise economic legislation to conform to EU guidelines. Since Spain has now achieved its goal of joining the first wave of the EMU, Prime Minister Aznar is now look for new ways to lower Spain's unemployment rate of 21 percent.

EMU membership has certainly proven an important factor in the prevailing mood of optimism in Spain. With a healthy economy which promises only to expand in the short-term future, Aznar is now being praised by many as a major force behind Spain's modernization, industrialization and accession in the global economy.

Coming off a long reliance on devaluations as a solution to problems of competitiveness, Spain is now confident in relying only on productivity as a mechanism of economic adjustment. Accordingly, business leaders are now asking Aznar's government for expedited reforms to help companies to compete. In addition, they want the government to tackle bureaucratic barriers, service-sector monopolies, social charges, and labor rules which, despite changes last year, they still consider a negligent handicap.

However, two blemishes remain on Spain's strong performance. First, the unemployment rate—although lower now than at any time since 1992—remains close to 20 percent. Moreover, 1997 figures show a participation rate among over-16 year-olds to be 50 percent, a rate significantly below levels in the rest of the EU. For women, the rate was 38 percent. In order to address these needs, Spain is now creating jobs (about 400,000 per annum, according to a recent Financial Times Survey), but it is still having trouble bringing many of its people into the labor force.

The current problem of unemployment notwithstanding, Spain is just now starting to reap the benefits of the Aznar government's reforms. It has been an extended and painful process for Spain to get to where it is now, however. In order to meet the Maastricht Treaty criteria to join the EU's common currency by the year 1997, Spain had to undertake privatization. In January 1996, REPSOL, the public oil company, announced the sale of its remaining shares, garnering revenues of $1.1 billion. This came after the release of 19 percent of company shares in 1995. The privatization of the Spanish telecommunications company, Telefonica, was wildly successful with one in five Spaniards applying for shares.

The convergence effort to ensure Spain a spot in the first wave of countries joining the EMU expedited the country's induction into a new economic era. Inflation and interest rates are at their lowest levels in 20 years and the budget deficit is finally under control. The inflation rate will be approximately 2.4 percent this year, well below the average annual inflation rate for the past decade. Public debt remains higher than 60 percent of GDP at 69 percent, but lower than countries such as Belgium and Ireland favored for membership.

Prime Minister Aznar's obsession with monetary unification has buried other reforms needed to transform Spain into a competitive international business environment. Infrastructure reform has been slow due to large budget cuts. Airports, railways and roadways are inefficient and outdated in comparison to transportation infrastructure in other European nations such as France and Britain. While the country is moving forward on plans to extend high-speed trains to join the European high-speed network, currently only one 300 kilometer corridor services high-speed trains from Madrid to Seville. Spain's

telecommunications infrastructure is also insufficient. Long distance calls, on average, are three times as expensive as similar service in Britain, with local calling rates on the rise. With basic infrastructure upgrades incomplete, Spain is lagging behind other European nations as a lucrative investment location.

Another drawback for international business in Spain is the incompatible workweek. The Spanish "siesta" lasts anywhere from 1:30 to 5:00 in the afternoon during which many businesses and most financial institutions close down. This daily break in the workday is incompatible with the international business world and can prove to be inconvenient as well as burdensome to the tourist and businessman alike. Spanish society and business will have to conform to the standardized workweek of the rest of Europe to become a truly viable member of the European international business community.

Despite the governments continued inward focus, Spanish companies are looking outward and reaping the benefits of international markets, namely Latin America. Spain is the largest European investor in Latin America with the large investors being Telefonica, the Spanish telecommunications company, and Banco Santander. Telefonica currently has 10 million phone lines in operation in Latin America compared to 16 million in Spain. With greater growth prospects on the horizon, moreover, Telefonica forecasts 50 percent of its business to be in Latin America by the year 2000. For instance, Telefonica was in August 1998 the big winner in the privatization of the Brazilian telecommunications monopoly Telebras, by purhcasing Telesp, the fixed-line service for the State of Sao Paulo.

Under the EU's Common Agricultural Policy, Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs and variable levies that effectively keep lower priced imports from entering the domestic market to compete with domestic production. As a result of the Uruguay Round Agreements, these variable levies were replaced by fixed import duties on July 1, 1995. All import duties on agriculture will be lowered from 1995 to 2000.

Although Spain automatically acceded to the GATT Government Procurement Code when it joined the EU in 1986, it did not implement the code until late 1992. EU Directives on the Procurement Code provide the framework for Spanish legislation on government procurement outlining procedures for awarding contracts for construction and supply of public works, as well as procurement for entities operating in the fields of telecommunications, water, transport, and services. A proposed directive will also open up procurement of services such as insurance, architecture and waste disposal.

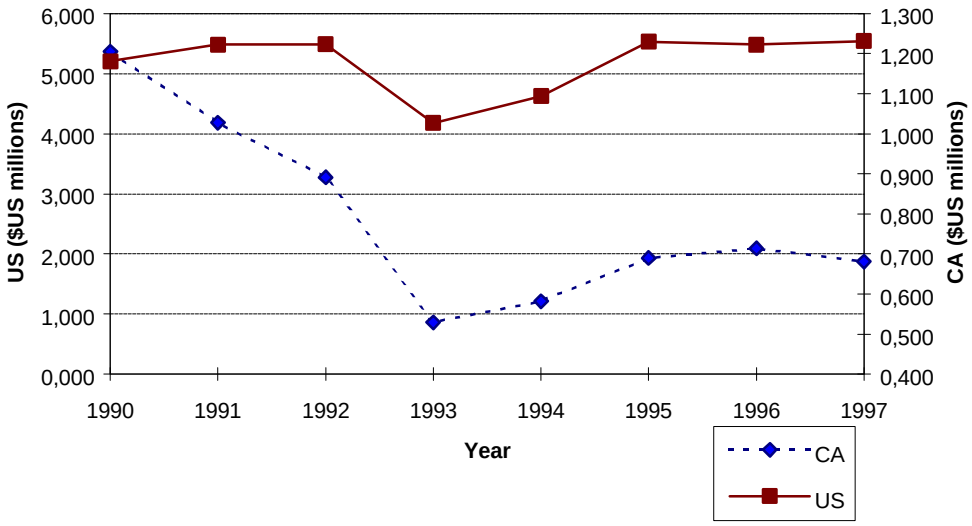
The Spanish government is interested in attracting new foreign investment to modernize the economy. It has come up with new regulations for investment and foreign exchange to make the country more attractive to new investors. Spanish law permits foreign investment of up to 100 percent of equity, except in a small number of strategic sectors, and capital movements have been completely liberalized. In order to gain a foothold in the industrial base of Spain, the investors have to deal with heavy overstaffing, strict labor laws and much-needed modernization in order to achieve profitability. Nonetheless, investment is strong in Spain and is expected to increase now that uncertainty over Spain's accession to EMU is over.

In recent years, Spain has moved to strengthen its IPR laws. During its EU accession process, Spain adopted a new patent law in 1986, a new copyright law in 1987, and a new trademark law in 1988. Spain's intellectual property laws approximate or exceed EU levels of protection. Spain is a party to the Paris, Bern and Universal Copyright Conventions and the Madrid Accord on Trademarks.

US software producers continue to complain of losses from business software piracy and are taking legal action under Spain's new intellectual property laws. The Spanish government has responded to concerns over software piracy calling for rigorous enforcement of the law and urging private industry to pursue pirates aggressively through the courts. Regardless, software piracy remains rampant with 73 percent of personal computer software pirated, one of the highest levels in the EU. Although Spanish enforcement efforts have increased, resulting in numerous civil and criminal actions, infringement of trademark rights is still a problem particularly in the leather and textile goods sector.

Statistical Appendix

Total US and CA Exports to Spain: 1990-1997



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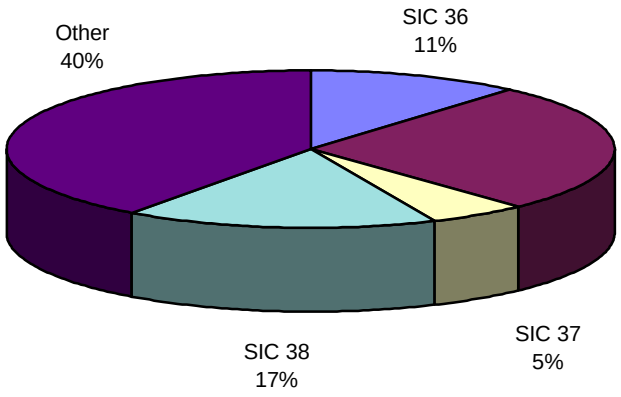

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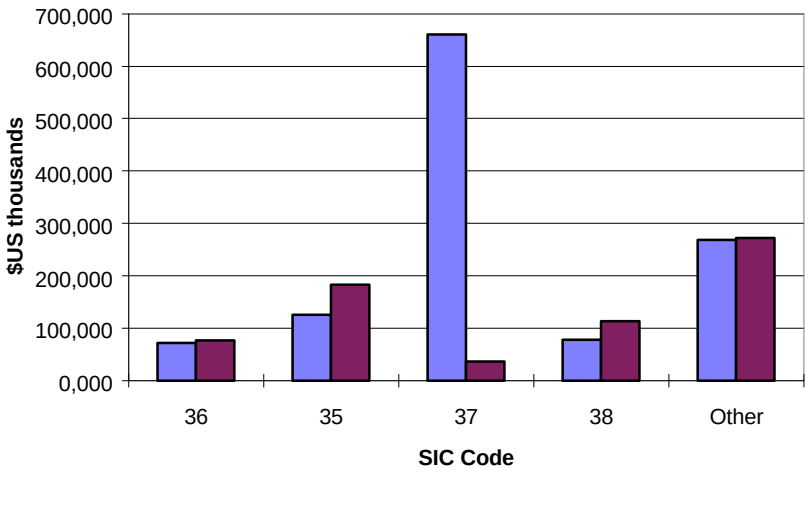

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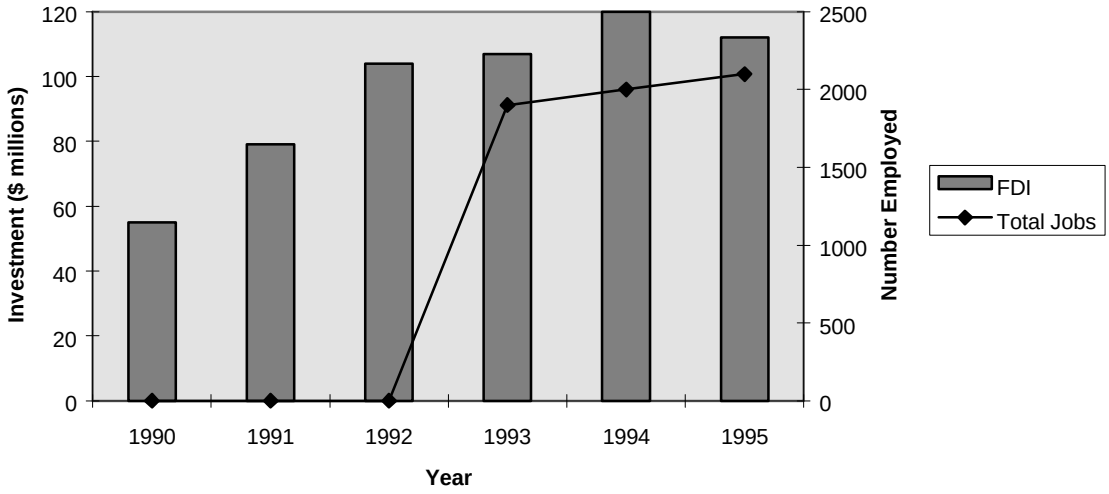


5. Sweden

Background

Sweden, Europe's fifth biggest country, but with a population of only 9 million, is a society currently struggling to come to terms with what its position in the world is as the planet moves into the 21st Century. Ten years ago, Sweden represented the "Middle Way" that sought to provide a humane passage between controlling totalitarianism and uncaring capitalism. Aided by peace and neutrality for the entire 20th Century, Sweden achieved an enviable standard of living and boasts a modern distribution system, excellent internal and external communications, and a skilled labor force.

Since the beginning of this decade, however, Sweden has been plagued by relatively high unemployment, an uncompetitive business climate, and a per capita income standing that has dropped from fourth in the world to fifteenth place, ranking it behind its Scandinavian neighbors, and even Ireland and Italy, according to the OECD. Recession, the 1992 bank crisis, budget deficits, labor trouble, and meeting Maastricht criteria all resulted in a changing social and commercial environment. The economy has recovered substantially since the darker days of the early 1990s, but much remains to be done.

Sweden is a constitutional monarchy and a multiparty, parliamentary democracy. While the king is the head of state, all executive authority is vested in the cabinet which is formed through direct parliamentary elections every 4 years. It consists of the prime minister and around 20 ministers. The Social Democratic Party is the current majority party. The next election takes place in September 1998.

The current prime minister is Goran Persson, a Social Democrat, who took over when Social Democratic Prime Minister Ingvar Carlsson retired in early 1996. The unicameral parliament, or Riksdag, has 349 members who are elected on a proportional representation basis to serve 4-year terms.

California and US Ties with Sweden

Sweden currently ranks as California's twenty-third largest export market, just ahead of Russia and behind Saudi Arabia. In 1997, exports to Sweden dropped precipitously by 23.6 percent to $798.3 billion. This followed a 45-percent increase in 1996. Electronics, industrial machinery, computer equipment, and instruments account for about 75 percent of the state's exports to Sweden. In 1995, Swedish firms had invested an accumulated $536 million in California, directly supporting 3,800 jobs in the Golden State. Although this is a notable amount, Swedish investment is down significantly from a high of $1.1 billion and 13,000 jobs in 1992.

With $3.3 billion in goods sent to Sweden in 1997, US exports account for about 8 percent of total Swedish imports. This was a 3.3-percent decline from the previous year, and makes Sweden the United States' thirty-fourth largest export destination. The US is the largest foreign investor in Sweden with approximately 350 subsidiaries or affiliates, a majority of which are active in computer software or hardware, general industrial goods, professional services, or health care.

According to the US DOC, the top ten prospects for exports to Sweden are in the following sectors:

Sector	**Estimated 1998 Market Size**
Computer Services	$ 3,735 million
Computer Software	$ 1,705 million
Travel and Tourism Services	$ 14,800 million
Telecommunications Services	$ 6,367 million
Drugs and Pharmaceuticals	$ 2,599 million
Electronic Components	$ 2,207 million
Aircraft and Parts	$ 1,097 million
Medical Equipment	$ 453 million
Pollution Control Equipment	$ 1,490 million
Telecommunications Equipment	$ 3,101 million

Sweden and the US enjoy an excellent bilateral relationship. Despite foreign policy differences in the seventies and early eighties, relations have improved markedly over the past ten years. The US and Sweden worked very closely at the beginning of this decade to facilitate the withdrawal of Russian forces from the three Baltic states. Although, Sweden has expressed no interest in joining an expanded NATO, its armed forces have participated in peacekeeping efforts in Bosnia. Sweden is a member, albeit not an enthusiastic one, of the EU, and has been a leading member of the Council of Baltic Sea States, which promotes close economic and political cooperation among the states bordering the Baltic Sea.

Economic Policy Framework

Like other relatively small industrialized countries, Sweden is highly dependent on international trade to maintain its high productivity and living standards. This dependence has forced Sweden to integrate itself into the world economy. Because of this dependence, Sweden has a world-class infrastructure with excellent highway and railway systems, modern ports for containerized shipping and deregulated telecommunications.

Fifty-five percent of Sweden's GDP is generated by international trade, both imports and exports. In 1996 exports were equivalent to 40 percent of GDP. More than 80 percent of total exports consist of industrial goods. The most important export markets are in Western Europe. More than half of Swedish exports go to the EU. Also important are neighboring Finland, Norway and Denmark which, cumulatively, buy 20 percent of Swedish exports. Sweden sends about 8 percent of its exports to the US.

Although Sweden is a relatively small country, its economy is unusually diversified. Traditional industries based on the two most important raw material resources, iron ore and wood, still play an important role. But the engineering industry and various high-tech sectors have grown in significance. Few other countries of Sweden's size have their own aviation and nuclear power industries, as well as two domestic automotive manufacturers (Saab and Volvo), an advanced war material industry, a well-developed financial sector, a state-of-the-art telecommunications industry (e.g. Ericsson), and two major pharmaceutical groups (e.g. Astra).

For the beginning part of the 1990s, Sweden was characterized by economic crisis in which GDP declined by 5 percent and unemployment hit double digits. Under the leadership of the ruling Social Democratic minority government that was elected in 1994, the situation, though still poor by traditional Swedish standards, has improved markedly. Between 1994 and 1997, GDP growth averaged 3 percent, though it seems that 1998 will be somewhat slower. Per capita GDP is $18,770 (purchasing power parity). Unemployment has dropped to 6.9 percent, which is still much higher than the 1990 rate of 1.7 percent, and inflation, which averaged 2.9 percent between 1990 and 1996, is currently at the remarkably low 0.6 percent, higher than only Switzerland and Japan.

Although Sweden is known for its extraordinarily high level of social spending—the government spends 46 percent of GNP on welfare, while overall public spending is 63 percent of GNP—Sweden's decision to join the EU in 1995 has forced it to refrain from high deficit spending. Sweden's deficit/GDP ratio is 1.9 percent, well under the 3-percent maximum allowed under the Maastricht Treaty. Not surprisingly, however, its debt/GDP ratio is one of the highest in the EU. At 77.4 percent, it is the fourth highest in the Union, and far exceeds the Maastricht-mandated 60-percent criterion.

Despite improvement over the decade, unemployment remains Sweden's key economic problem. Although the "open" unemployment rate is 6.9 percent, when citizens in government-sponsored training programs are counted, the number increases to around 12 percent. Despite its pledge to make low unemployment its main goal, the government has been unable to effectively combat the high rate. It is clear that Sweden needs structural reforms in its labor market. One sign of this is that wage increases have not been moderated by the high levels of unemployment. Since 1991 real wage increases have exceeded those of most of Sweden's foreign competitors. Most independent observers have recommended labor market reforms to include the following measures: wage differentiation to reduce labor costs for low skilled jobs; introduction of incentives to increase individual competence levels; increase demand on eligibility requirements for unemployment benefits, and a shortening of their duration period; cutting the

income tax burden and the non-wage labor cost; making the unions and their members bear the cost of the unemployment insurance system; and liberalizing the employment protection legislation.

Up to the mid-1980s, Sweden's approach to direct investment from abroad was quite restrictive and governed by a complex system of laws and regulations. The Swedish government has implemented reforms to improve the business regulatory environment that will benefit investment inflows, and are seeking ways to ensure wider ownership in Swedish industry, which they feel will increase competitive pressures and lead to greater efficiency. Among the reforms is a lowered corporate tax which ranks among the lowest in Europe. Since 1980, foreign ownership in Sweden has doubled and foreign-owned firms employed 10 percent of the work force in the private sector or 246,000 workers in 1995. According to recent OECD statistics, Sweden ranks second place in the world in inflow of FDI as a percentage of GDP.

Despite this, it is important to note that Sweden's largest and most successful company, the telecommunications giant Ericsson, is threatening to move its headquaters to Britain, where it finds the business climate better. Indeed, it is often quite expensive to hire labor and difficult to shed it. Industrialists cite high personal income taxes and rigid labor rules as impediments to remaining competitive globally while doing business in the country.

It is not clear how much reform, particularly in the areas of the labor market and social spending will take place in the short-, or even medium-term. Although the Social Democratic government has cut social spending, a major theme in the 1998 elections is "restoration" of the old Swedish model. The Social Democrats' aging labor (over 80 percent of Swedish labor is unionized) and public-sector worker constituencies are very much afraid of the changes yet to be undertaken. One sign of this is the fact that the public has blamed many problems that have arisen since 1994 on Sweden's ties to the EU. In fact, Prime Minister Persson has ruled out even holding a vote on whether to joining the European single currency being introduced in 1999. For now, Sweden will keep its krona.

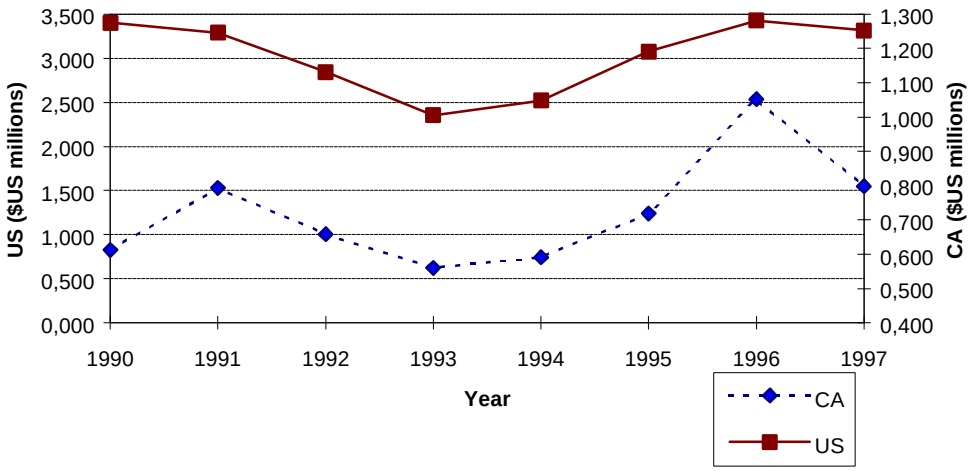
Due to Swedish membership in the EU, barriers to imports are not high. In accordance with EU law, Sweden applies the EU common external tariffs to imports from the US. The EU tariff schedule charges most industrial products a 5 to 14 percent duty. Sweden has several free port facilities in which goods may be re-exported without payment of customs duties or other import charges.

Swedish law provides adequate protection of all property rights, including intellectual property. As a member of the EU, Sweden adheres to a series of multilateral conventions on industrial, intellectual and commercial property. Sweden is a signatory to the Madrid Protocol on the International Registration of Marks. Enforcement of the law, however, has been less than ideal. Sweden is also a signatory to the Berne Convention, the Rome Convention and the TRIPS convention. Swedish copyright law protects computer programs and data bases.

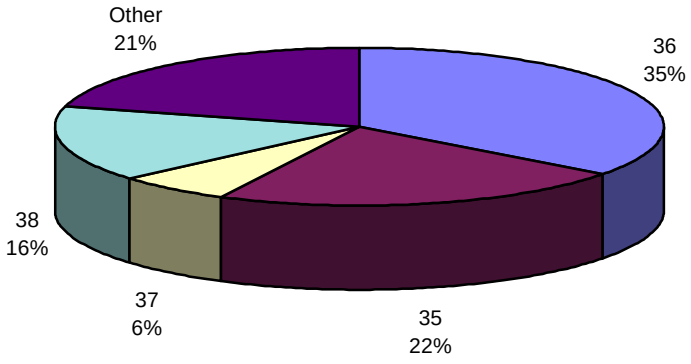
Patents are adequately protected under the terms of the EU agreement, in which member states have agreed to comply with the provisions of the European Patent Convention. Protection in all areas of technology may be obtained for 20 years.

Statistical Appendix

Total US and CA Exports to Sweden: 1990-1997



High-Tech Exports to Sweden as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:

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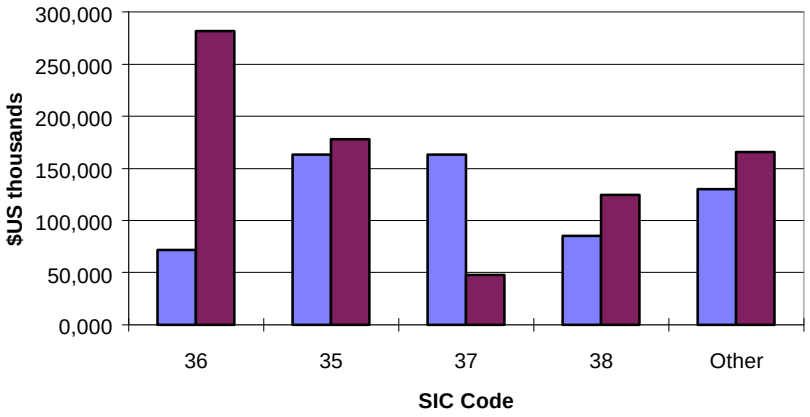
Other: Total of all other CA exports.

CA High-Tech Exports to Sweden by Industry: 1990 vs. 1997



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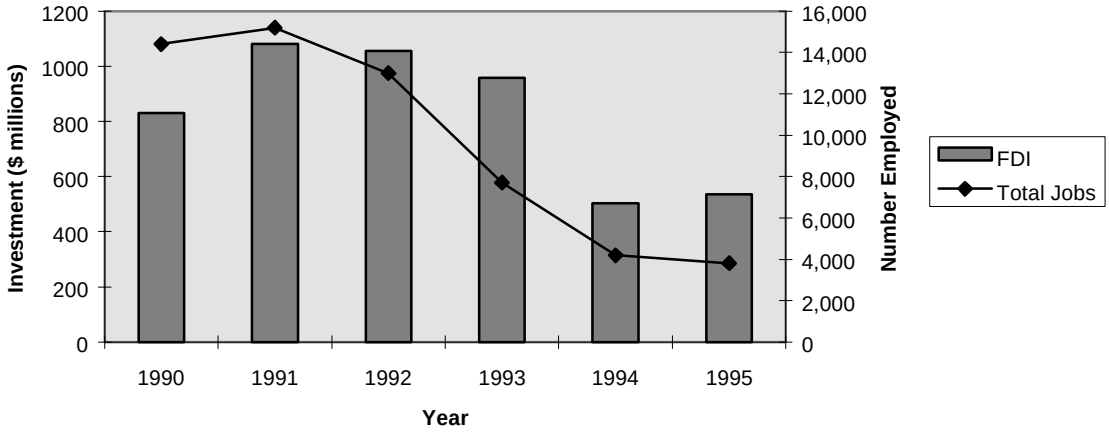
Foreign Direct Investment from Sweden to CA and Resulting Employment



D. Southeast Asia

1. Singapore

Background

Singapore is a small country with few natural resources and a population of a little over three million. Singapore is the quintessential free-market economy. It is home to the world's second largest port, serves as a key financial center, an efficient trade and business hub, and is the natural gateway to the rapidly developing ASEAN markets as well as China and India.

Singapore is a strong proponent of regional economic integration and is one of the primary promoters of the ASEAN free-trade area launched in January 1994. APEC's potential ability to promote cooperation within the region, in areas including technology transfer, human resource development, industry development, information exchange, and programs to facilitate regional trade and investment and improve private-sector networking, is particularly attractive to Singapore. The permanent secretariat of APEC was established in Singapore in January 1993. Singapore is also a strong supporter of the multilateral trading system under the WTO.

Singapore, which became an independent republic after breaking away from the Malaysian Federation on August 9, 1965, has been ruled without interruption by the People's Action Party (PAP) since 1959. Officially, Singapore is a parliamentary republic, with a president as head of state and the prime minister serving as head of government. Effective executive authority and the majority of political power rests with the cabinet, currently led by Prime Minister Goh Chok Tong. In the January 1997 parliamentary elections, the PAP won 65 percent of the popular vote and now controls all but two seats in the 83-member parliament.

The government of Singapore has dominated the business and commercial scene since its independence steering the way for economic growth and prosperity. Yet despite being one of the world's freest market economies, Singapore is renown for its authoritarian control and strict limitations on freedom of the press. Singapore imposes strict fines for littering, the death penalty for selling drugs and chewing gum is prohibited.

California and US Ties with Singapore

Singapore ranks as the United States' ninth largest export destination. In 1997, US merchandise exports to Singapore totaled $19.8 billion, up nearly 20 percent over 1996 levels. Overall, US products represented 16.8 percent of total Singapore imports, ranking second behind Japan. The US is also Singapore's largest export destination, comprising $20.3 billion or 18.4 percent of total Singaporean exports.

The US has maintained formal diplomatic relations with Singapore since its independence. Total US FDI in Singapore increased 11.5 percent to $14.2 billion in 1996. US FDI in Singapore is concentrated primarily in the financial and manufacturing sectors (notably electronics, industrial chemicals and petroleum). The growth of US investment in Singapore and the large number of Americans living there has enhanced trade, investment and tourism opportunities between Singapore and the US. To date, there are almost 900 US companies operating in Singapore.

The US DOC has determined the top ten leading prospects for US exports to Singapore. They are as follows:

Sector	Estimated 1998 Market Size
Electronic Industry Production/Testing Equipment	$ 2,266 million
Aircraft and Parts	$ 3,006 million
Electric Power Systems	$ 1,127 million
Franchising	$ 3,297 million
Construction Equipment	$ 1,122 million
Industrial Process Control	$ 1,670 million
Professional Services	$ 3,980 million
Laboratory & Scientific Instruments	$ 1,535 million
Computer Hardware and Peripherals	$ 3,130 million
Building Products	$ 5,048 million

These growth industries are very compatible with the strengths of the California economy.

Singapore is currently California's sixth largest export market. In 1997, California exports to Singapore decreased 4.24 percent to total $5.6 billion. Currently, California represents 32 percent of total US exports to Singapore. California trade with Singapore is dominated by exports of electronics, electrical equipment, industrial machinery, and transportation equipment. Together, these categories represented nearly 84 percent of total California exports to Singapore. To promote trade, investment and tourism between the two countries, Singapore has set up several representative offices in California: the Singapore Trade Development Board, the Singapore Economic Development Board, and the Singapore Tourist Promotion Board. During his seven-country business mission to Asia in January 1997, Governor Wilson met with the prime minister, Senior Minister (and national patriarch) Lee Kuam Yew, and Deputy Prime Minister Tan Keng Yam. In March 1998, Singapore and California signed an MOU outlining their strategic alliance in technology, research, trade, and investment.

Besides trade, California has several additional ties with Singapore. Foreign investment from Singapore into California has grown steadily since 1987 when it invested $197 million to 1994 when the total equaled $541 million. This increase amount tapered off significantly in 1995, though, when investment suddenly fell by 27 percent to $397 million. This investment directly generates 1,200 jobs in the Golden State. Singapore also actively encourages its businesses to invest abroad. Currently, Singaporeans are the largest investor in Malaysia, ahead of both Japan and the US. Also, in 1996, there were 68,000 visitors from Singapore to California, representing 60 percent of the 114,713 visitors from Singapore to the US.

Economic Policy

Singapore is a gateway to the potent ASEAN market and serves as an economic model for the region. Home to the world's second largest container port, Singapore also provides a gateway to the huge emerging markets of India and China. If one wishes to develop business in the ASEAN region, one starts in Singapore. This geographically small state boasts one of the world's highest per-capita incomes ($26,100 in 1996) and a global reputation as one of the world's leading international business centers and entrepots.

In 1996, Singapore's GNP totaled $92 billion with growth averaging 8.9 percent over the past five years (1993-1997). With the Asian crisis, however, growth will fall significantly. Despite a GDP growth rate of 7.8 percent in 1997, the Singaporean government foresees a growth rate of only 2.5 to 4.5 percent for 1998. Despite this, the Singaporean economy will likely be able to weather this crisis much better than many of its neighbors. Foreign debt is low, the banks financial position is, by Asian standards, relatively transparent, there is a substantial amount foreign reserves, and inflation is low (2 percent). The biggest concern is that many Singaporean banks have considerable exposure to Indonesia. Also, the economy is highly dependent on the manufacture of disk drives, a market that is saturated.

Singapore's national savings rate is one of the highest in the world standing at more than 50 percent in 1996. Inflation is under control and unemployment is not a factor. In fact, one of Singapore's economic bottlenecks is caused by a labor shortage. Singapore's labor shortage ranges from unskilled workers to skilled workers such as engineers. To cope with the situation, the government adopted a flexible policy that allows unskilled foreign workers to account for a maximum 40 percent of a company's total work force.

Singapore has posted impressive growth by encouraging specific foreign investment which improves the technical capabilities of the country. Singapore's public policy initiatives in the areas of public finance, trade, industrial expansion, immigration, and education aim at attracting and retaining foreign investment. There efforts have proven successful since Singapore has a higher inflow of FDI as a percentage of GDP than any other country in the world. Although the government seeks to develop more high-tech industries, it does not impose production standards or other limitations on foreign companies. In fact, multinational firms account for nearly three-fourths of Singapore's export production. Recognizing the link between investment and trade patterns and the danger of relying excessively on a single market, Singapore has sought to diversify its export markets in recent years by balancing its sources of foreign investment.

Financial services, manufacturing and trade continue to drive the Singapore economy representing 31, 24 and 19 percent of the GDP respectively in 1997. Agricultural production accounts for only 0.2 percent of GDP.

Singapore maintains liberal and open trade policies. Approximately 99 percent of imports enter duty-free. Import licenses are not required and customs procedures are minimal. At the November 1996 APEC Summit, Singapore promised to eliminate tariffs on all goods by 2010 and to speed the liberalization of telecommunications which includes the privatization of Singapore Telecom. The few significant import duties which exist are levied mainly for health and social reasons – on alcohol to discourage drinking, on tobacco and cigarettes to discourage smoking, and on vehicles and fuel to control car ownership and traffic congestion. Import duties on these items are consistent with GATT and administered on a MFN basis.

Singapore maintains some access restrictions in the services sectors. Foreign investment in the financial, legal and insurance services sectors is limited by regulation and administrative practice. Foreign legal firms are not allowed to hire or form partnerships with local firms. Foreign participation is prohibited or limited in sensitive sectors such as arms manufacturing, airlines, mass transit, broadcasting, public utilities, and property.

Investment into Singapore meets little government opposition. Foreign investors are given freedom to make their own decisions on the types of activities and industries in which to invest. They are allowed 100-percent foreign equity ownership and freedom to move their capital and repatriate profits. There are no local content laws. Furthermore, their investment decisions are based on Singapore's competitive advantages and profitability vis-à-vis alternative investment locations. Singapore offers a strategic location, good infrastructure, political stability, low inflation, a sound currency, a skilled-labor force, harmonious industrial relations, competitive taxes, and a generally pro-business environment.

Singapore became a full member of the WTO GPA in 1997. There are no formal policies favoring domestic suppliers in government procurement. Procedures for open tenders are transparent and based on clear criteria. Selective and single tendering provide more scope for discretionary decisions. Tender bids from ASEAN suppliers, however, are given a preferential margin of 2.5 percent (up to a maximum of $40,000) under the ASEAN Preferential Trading Agreement.

Protection of IPRs remains problematic. In 1987, Singapore did enact strict, comprehensive copyright protection legislation following close consultations with the US government. The trademark law was similarly stiffened in 1991. Singapore passed a new patent law in 1994 that was subsequently

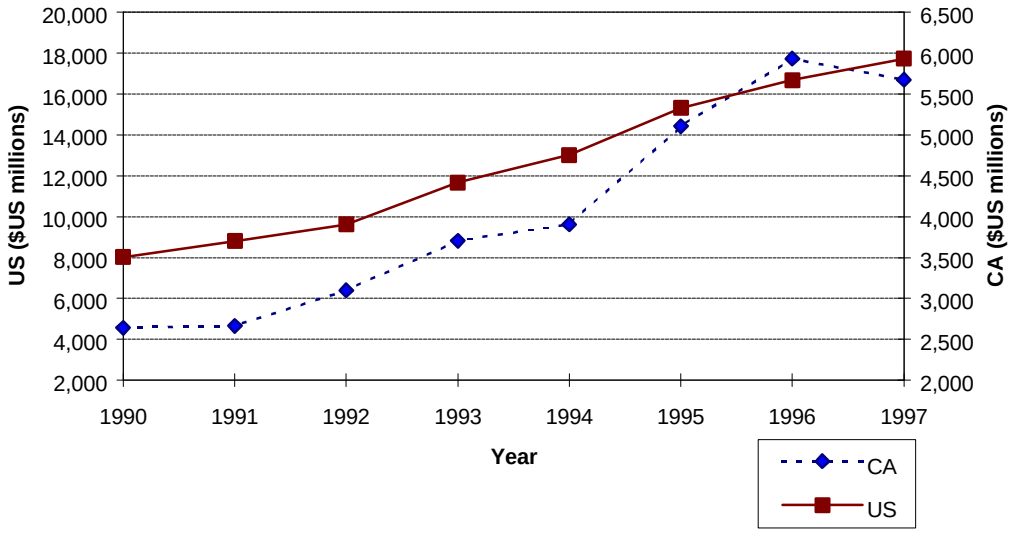
strengthened and became fully TRIPS consistent in 1996. US manufacturers have set the pace in cracking down on copyright violations under the new system, which relies heavily on copyright owners to combat infringement. The legitimacy of the crackdown effort by Singapore is evidenced by the 140-percent increase in sales of IPR items from 1994 to 1995.

Concerns remain, however, with regard to the adequacy of related law enforcement, especially as computer software piracy remains widespread and is increasing. Estimates by trade associations show software piracy losses rising to $56.5 million in 1996, up from $40.4 million in 1995, and $37.3 million in 1994. Singapore is a member of the WIPO and party to the WTO TRIPS agreement. Singapore is not a party to the Berne Convention or the Universal Copyright Convention. Official consultations are ongoing in the context of US-Singapore bilateral trade and the investment framework agreement on how to improve Singapore's record on IPR protection.

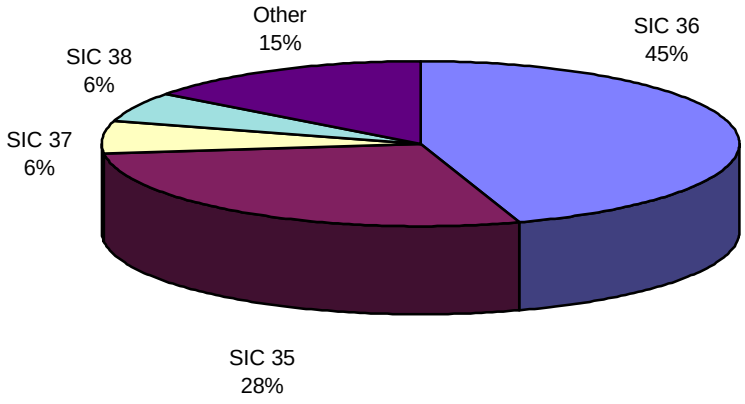
Singapore is well-regarded for its strong stand and track record against corruption in government and business. In international surveys, Singapore is regularly identified as among those countries with the lowest levels of corruption. The Prevention of Corruption Act and the Corruption (Confiscation of Benefits) Act provide the legal basis for government action by the Corrupt Practices Investigation Bureau, a division of the Office of the Prime Minister.

Statistical Appendix

Total US and CA Exports to Singapore: 1990-1997



High-Tech Exports to Singapore as Percentage of Total CA Exports in 1997



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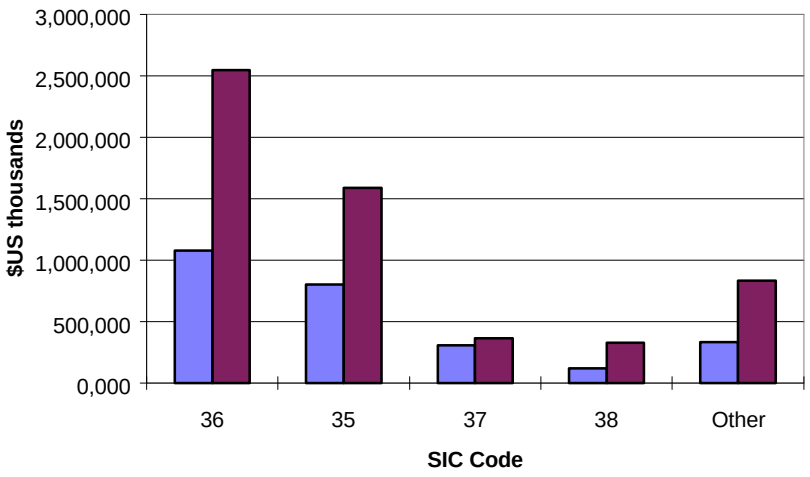

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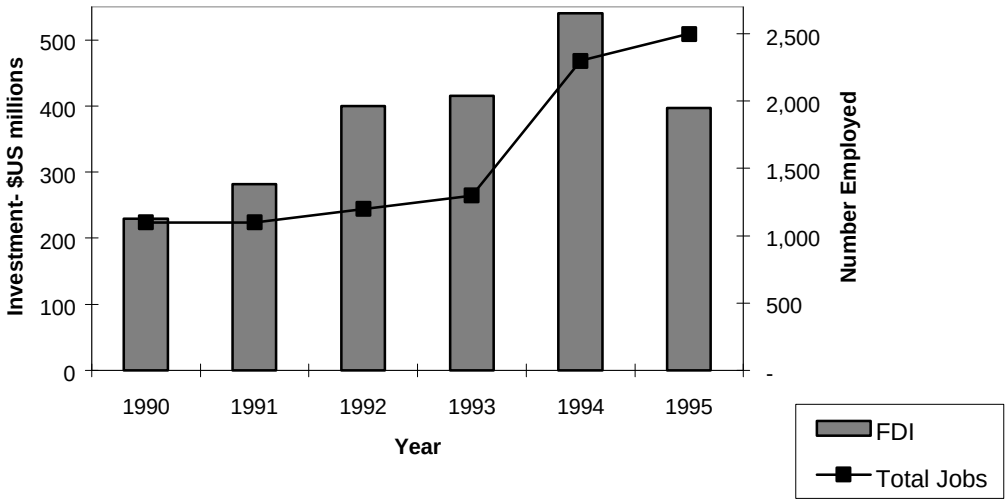


2. Philippines

Background

The Philippines is an active player in the international arena. The country is a member of the UN, APEC, ASEAN and was an original charter member of the WTO. In November 1996, the Philippines hosted the fourth annual APEC Economic Leaders' Summit at Subic Bay. Economic growth, which had been booming for three years before the crisis, has slowed considerably.

The United States' continued influence and strong relationship with the Philippines is evidenced by its political structure and strong trade ties between the two. The Philippines has a representative democracy modeled on the US system. The 1987 constitution, which was approved by national referendum under the Aquino Administration, established a presidential system of government with a bicameral legislature and an independent judiciary. Within the constitution, there are also provisions for autonomous regions in the Muslim stronghold of Mindanao and in the Cordillera region of northern Luzon.

The Philippine president is elected by universal suffrage and limited to one six-year term. The current president, Joseph Estrada, was elected in May 1998. After the election, he formed the LAMP Party out of a tri-partite alliance that had helped him get elected. Within Congress, the 24-member Senate is elected by popular vote and members serve for six years. In the House of Representatives, 204 of a possible 250 seats are elected by district, almost half of which are from the metropolitan Manila area. The rest of the House seats are designated for sectoral representatives and minority groups appointed by the president. House members are elected for three-year terms.

California and US Ties with the Philippines

The US remains the Philippines largest trading partner and principal source of FDI. In 1997, bilateral trade between the US and the Philippines totaled $17.8 billion. The Philippines ranked as the United States' twentieth largest export market with exports increasing 21.3 percent to $7.4 billion. The primary US exports to the Philippines are materials for semiconductors, electronics, and electrical machinery manufacture; electric and non-electric machinery; and transportation equipment. In 1997, the US trade deficit with the Philippines totaled $3 billion, a 50-percent increase over the year before.

In 1997, California exports to the Philippines were $2 billion, the same amount as 1996 and making the Philippines California's sixteenth largest export market. With the Asia crisis, exports have showed signs of weakening. Indeed, first quarter exports plummeted almost 20 percent in 1998 from the same period one year before. Electronics and electrical equipment dominate California exports to the Philippines representing 60 percent of total exports to the Philippines in 1997. Other top export categories include industrial machinery and computer equipment, transportation equipment and precision instruments. Hollywood has business links with the Philippines through that country's large animated film industry.

The US is also the largest foreign direct investor in the Philippines. Total stock of US FDI in the Philippines increased by 32.3 percent in 1996 to $3.3 billion. US direct investment in the Philippines is primarily concentrated in manufacturing, banking and wholesale. In the wake of the November 1996 APEC Economic Leaders' Summit at Subic Bay, the Philippines signed direct investment deals worth $2 billion with some $1.5 billion coming from 20 bilateral deals with US companies. One key investment is Intel's decision in early 1996 to invest $350 million in the Philippines in a flash memory production facility and expansion of a Pentium chip testing plant, one of three such plants it has worldwide. During his Asia Mission in January 1997, Governor Wilson announced the $98 million joint venture project between a Philippine company and San Diego-based Alliance Bioremediation and Composting Corporation (ABCC) to build the first zero-emissions, municipal solid waste conversion facility in the Philippines.

According to the US DOC, the top ten prospects for US export growth in Philippines are in the following sectors:

Sector	Estimated 1998 Market Size
Defense Equipment	$ 500 million
Telecommunications Equipment	$ 5,866 million
Computers and Peripherals	$ 2,831 million
Aircraft and Parts	$ 2,880 million
Electrical Power System	$ 1,583 million
Water Resource Equipment/Services	$ 267 million
Building Products	$ 2,180 million
Food Processing & Packaging Equipment	$ 385 million
Scientific and Laboratory Equipment	$ 406 million
Hotel and Restaurant Equipment	$ 148 million

The US continues to maintain strong cultural, strategic and economic ties with the Philippines. There are some two million Americans of Philippine decent in the US and more than 100,000 American citizens in the Philippines. The Philippines remains a strategic ally of the US under the 1951 Mutual Defense Treaty and plays a key role in regional stability. The Philippines is one of five Asian countries, along with Japan, South Korea, Thailand and Australia, who have a bilateral defense treaty with the US. Until November 1992, under the 1947 Military Bases Agreement, the US maintained and operated major military bases in the Philippines at Clark Air Force Base and Subic Bay Naval complex, as well as other smaller installations. Since this time, the US has withdrawn its troops from the Philippines and the bases have become prime locations for foreign direct investment. President Estrada recently called US/Philippine military cooperation essential for the country's security.

In addition to the strong economic ties, Filipinos rank as the largest Asian minority population in California. According to the 1990 census, there are more than 734,000 people of Filipino decent living in California, representing half the US total. In 1996, 89,000 Filipinos visited California. This total was 7,000 more than 1995 and represented 72.4 percent of Filipino visitors who traveled to the US last year.

Economic Policy Framework

Economic reforms started under the Aquino Administration were accelerated under the Ramos Administration. Key sectors of the economy, including banking, insurance, aviation and telecommunications, have been deregulated and progressively opened up to foreign competition. In March 1996, Congress passed four key pieces of legislation to deregulate the oil industry, move from agricultural quotas to tariffs, institute an internationally acceptable system of customs valuation and further reduce barriers to foreign investment. Estrada appears committed to the on-going liberalization process as evidenced by comments in his first state of the nation address and by the fact that many of his advisors are economists and businesspeople. He has, however, claimed to desire a slower approach to tariff reduction.

Spurred by political stability and economic reforms, the Philippine economy appeared to be on the road to a more steady and sustainable growth before external factors, namely the Asian crisis, slowed the economy significantly. In 1995, the economy grew by 5.8 percent, followed by 6.0 percent growth in 1996, but with crisis hitting mid-year, growth slowed in 1997 to about 4.7 percent. For 1998, most expect the rate to drop below 2 percent.

Most experts see the only remaining impediment to sustainable economic growth in the Philippines as the passage of a comprehensive tax reform bill. Estrada has proposed such reform which is intended to

simplify the tax structure and broaden the tax base. Failure to pass the tax reform bill could seriously compromise the country's efforts to attack income inequality and spread the recent economic gains to the poor through development of health, education and infrastructure programs.

The primary impetus of the Philippines' economic transformation was its transition away from its traditional import-substitution development strategy and dependence on primary product exports to an export-oriented development strategy and diversification of its export portfolio. In the early 1990s, exports were dominated by primary product exports. But reforms in foreign exchange, customs and investment regimes spurred growth and investment in the Philippine electronics sector.

From almost nothing in 1992, electronic exports rose to $7.6 billion in 1995 and represented some 46 percent of total Philippine exports. The garment industry is another manufacturing sector which represents a significant portion of exports. Today, more than 75 percent of Philippine exports are now manufactured goods as opposed to the primary products such as sugar and coconut oil that dominated exports in the early 1990s. Philippine exports grew at an average annual rate of 48 percent between 1992 and 1996. In 1997, exports grew 22.8 percent. Despite the crisis, Filipino businesspeople expect exports to continue to grow, albeit at a slower rate, a goal many of its neighbors are unlikely to meet.

The Philippines' GNP totaled $82.3 billion in 1996 with per capita income of $3,550, though 46 percent of Filipinos remain below the absolute poverty line. Unemployment is relatively low for developing country status totaling 8.6 percent in 1997, though this is certain to increase as the Asian crisis unfolds. Inflation averaged 9 percent between 1990 and 1996. Inflation totaled 8.1 percent in 1995 and 8.4 percent in 1996. That rate dropped to 6.1 percent in 1997 in line with an IMF approved economic plan, but increased again to 10.7 percent by mid-1998. Domestic savings has grown from around 14 percent of GNP in 1993 to around 20 percent in 1996. Debt service as a percentage of GDP has held steady at around 6.5 percent.

The fiscal situation is not looking good for the Philippine government. Although the government agreed to a budget surplus of 5 billion pesos, the forecast is for a 70-billion peso *deficit*, a number which may increase. To respond to this, Estrada has ordered a 25 percent across-the-board expenditure cut in government agencies and postponed the ambitious modernization of the armed forces.

A major source of economic growth has been the attraction of foreign investment. Although foreign investors were originally terrified of the idea of Estrada, a former B-movie actor becoming president, the consistency of his cabinet and the advisors he has surrounded himself with have calmed them. The privatization and deregulation of key industrial sectors such as aviation, banking, insurance, telecommunications and oil are central to the privatization process. Legislation to reduce barriers to investment have also spurred investment. US companies alone are forecast to invest $12 billion through 2002. In his first state of the nation address, Estrada called on the Congress to pass long-delayed legislation to privatize the National Power Corporation, the largest state-owned utility. He also said that the sale of government stakes in companies such as Philippine National Bank and Petron, the country's largest petrol group, would start this year.

The Philippine government generally does not discriminate against foreign bidders. Competition for contracts in areas of significant interest to US suppliers which are not affected by substantial restrictions include power generation equipment, communications equipment, and computer hardware. However, the Philippine government does favor domestic firms in public procurement in several sectors and for some specific products. These include rice, corn, pharmaceuticals and iron/steel materials for infrastructure projects.

Importing into the Philippines is sometimes problematic in that exporters and importers have experienced problems with unwarranted uplifts in valuation, and with an appeal process that lacks transparency. The Philippines has made enormous progress in recent years to reduce barriers to trade and investment. The Philippines' average tariff rate has declined from 27.9 percent in 1988 to 23.5 percent in 1993 to 13.43

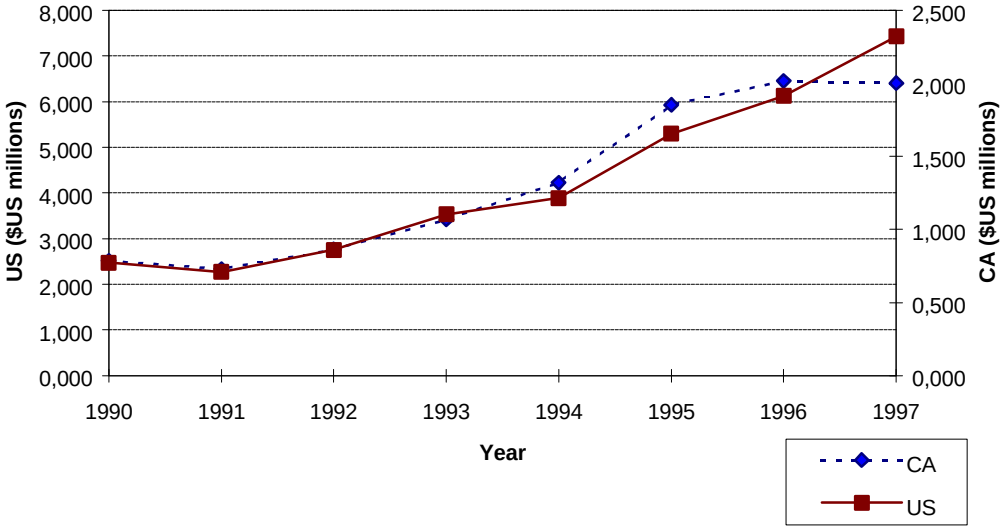
percent in 1997. The government announced plans to drop the rate further to 10.47 by the end of 1998, but the change in government calls this into doubt. In their Individual Action Plan (IAP) for the November 1996 APEC Summit, the Philippines committed to reduce tariffs to a uniform 5 percent by 2004, except for "sensitive" farm items, and to remove more barriers to foreign equity in financial services (which is already somewhat liberalized). The Philippines also plans to eliminate import licensing, lift restrictions on coal imports, free auxiliary maritime services, open retailing to foreign participation and liberalize rules for foreign investment and employment in tourism. The Philippines will also be one of three APEC countries to introduce an APEC-wide business travel visa program.

With regard to agricultural barriers, the average unweighted tariff on agricultural products is currently 20.76 percent and will decline to 13.1 percent by 2000. In January 1996, the Philippine Congress passed EO288 which reduced the tariff rate on so-called "luxury items" and "developing" agricultural products from 50 to 30 percent. This has significantly increased market opportunities for such products as raisins, nuts and candies. The lower 30-percent tariff still impedes US exports of fresh fruits, wine and distilled spirits and tobacco products although these products did benefit to some extent from the lower tariff rates. Important exceptions to the lower tariffs include rice which will continue to carry a 50-percent tariff and remain under import controls; soy sauce and chocolate will maintain 50-percent tariffs until January 1998; and a 40-percent tariff on automobiles, jeeps and motorcycles will apply until 1999. Despite 100 percent tariffs on sugar, industry leaders are calling to increase the tariff level on sugar to help the struggling industry. Increased tariffs would directly oppose tariff-reduction plans struck with the WTO.

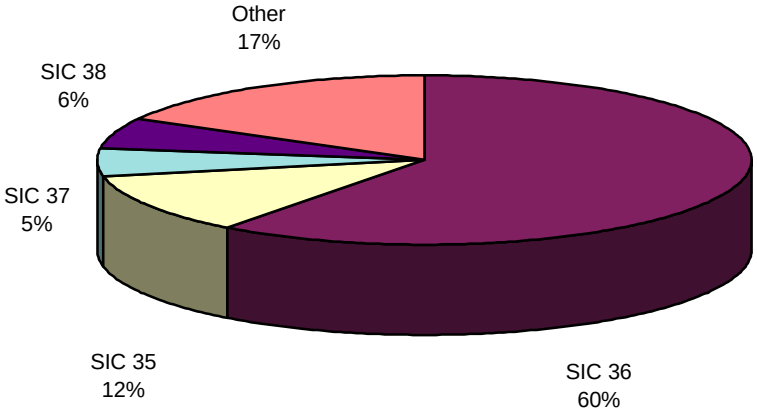
The Philippines is a member of the Paris Convention for the Protection of Industrial Property, Patent Cooperation Treaty, WIPO and WTO. While substantial progress has been made in recent years, significant problems remain in ensuring the consistent and effective protection of IPR. A new IP code, which took effect January 1, 1998, improves the legal framework for IPR protection in the Philippines. However, while it strengthens laws and increases penalties, limited government resources continues to hamper enforcement. Joint efforts between the American FBI and the Philippine National Bureau of Investigation have resulted in a series of successful enforcement actions. The judicial system remains a stumbling block to more aggressive use of the courts to effectively deter IPR violations. The designation of 48 IPR courts to handle IPR violations has done little to speed up the process, since these courts have not received additional resources and continue to handle a heavy non-IPR workload.

Statistical Appendix

Total US and CA Exports to the Philippines: 1990-1997



High-Tech Exports to the Philippines as Percentage of Total CA Exports in 1997



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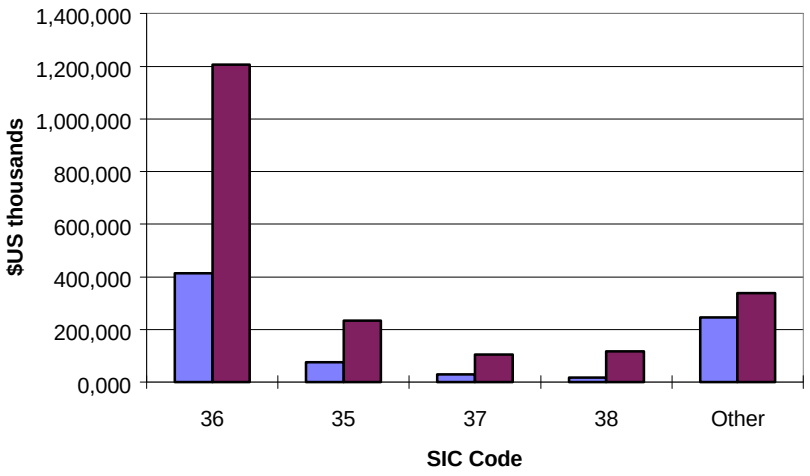

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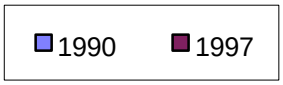
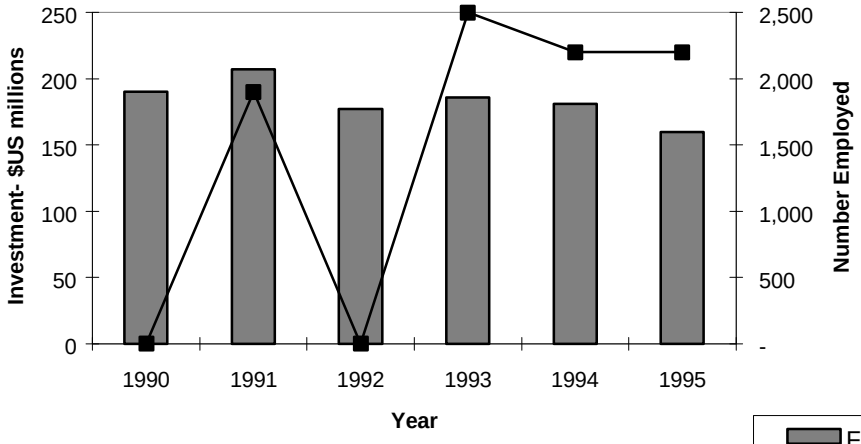
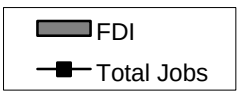


Foreign Direct Investment from the Philippines to CA and Resulting Employment





* Employment data not disclosed for 1990 and 1992.

3. Australia

Background

With a population of 18 million and GNP of $337 million, Australia is the twelfth largest economy in the world. Australia considers cultivating ties with Asian nations a top priority, whether dealing with regional security, international relations, or national growth. Australia intends to take a stable, export-oriented position in the Asia-Pacific region and the global economy. Australia was an active member in the Uruguay Round negotiations and is an original member of the WTO. Australia's tradition of government-owned and operated public service facilities and industries is being overturned as progress toward privatization continues.

Officially titled the Commonwealth of Australia, Australia is a democratic, federal system recognizing the British monarch as sovereign. There are three branches of power consisting of the executive, where the prime minister and cabinet are responsible to parliament, legislative and judicial branches.

In March 1996, the Liberal-National coalition won its first election in 13 years, defeating the Labor Party. John Howard was appointed prime minister for the ruling coalition and set out to dramatically change the economic policy of the Labor Party. The Liberal-National government has moved away from full engagement with Asia promoted by the Labor Party towards more cautious reforms and policies. Although Prime Minister Howard reaffirmed the country's commitment to free trade, the new government has outlined the need to be more pragmatic in future trade relations.

This is not to imply that Howard's conservative coalition is currently stable, however. One Nation, a racially divisive party led by Pauline Hanson, won almost a quarter of the votes at a Queensland state election in June 1998, taking 11 of the 89 seats in the state parliament. Moreover, Hanson, with her eye on the forthcoming federal elections, has been gaining popularity beyond Queensland. In July 1998, for example, Hanson was stressing the divisive rhetoric of One Nation against further immigration, welfare spending on native aborigines, foreign investment and what she refers to as the "Asianization" of Australia. Presently, Hanson's One Nation is drawing support from many hard-pressed people in declining rural areas who are disillusioned with Howard's National-Liberal coalition.

In addition to One Nation's gain in popularity, Howard has also seen his projects thwarted recently. Most notably, the prime minister was not successful with a bill that would have allowed the government to sell its remaining two-thirds of Telestra, Australia's main telecommunications company. On July 11, 1998, the Australian Senate rejected the privatization, which would have indirectly lured voters away from Hanson's One Nation via major tax cuts for Australians.

In effect, Howard is now hoping that the "Hanson effect," as it were, will fizzle in the near future, thereby giving his coalition a better chance in the looming elections. Although Howard was looking to call federal elections in August 1998, October 1998 is now being touted as a likely date.

California and US Ties with Australia

Australian relations with the US are consistently strong due to common language and shared British cultural roots. There are a number of factors contributing to a positive US-Australia relationship, including: similar commercial practices, common language and customs, high standards of living, a diversified manufacturing base and vast resource allocations which require further development. Australia and the US have been close allies as Australia has served as the southern link in the structure of Asia-Pacific strategic alliances. US-Australian strategic ties were solidified in the 1951 ANZUS (Australia, New Zealand, US) Security Treaty. The US also has a science and technology agreement with Australia dating back to 1968. NASA maintains its largest and most important program outside the US in Australia.

Australia is one of the few countries in the world where the US maintains a trade surplus. In 1997, the US trade surplus with Australia totaled $8.1 billion. Australia is the United States' fifteenth largest export market, with $12 billion of US goods in 1997, a 0.4-percent increase over 1996 levels. More than 1,000 American companies do business in Australia and over 10,000 different US products are in the marketplace.

The US is the largest foreign investor in Australia with 18.7-percent share of total foreign investment, followed by Japan (17.2 percent) and the UK (14.3 percent). US stock of FDI was $24.7 billion in 1996, 24.3 percent higher than 1995. US investment in Australia has more than doubled in the past several years and is concentrated largely in petroleum development and refining and manufacturing. US investment has also increased in the financial and insurance sectors (US DOC).

According to the US DOC, the top prospects for US export growth in Australia are in the following sectors:

Sector	**Estimated 1998 Market Size**
Computers and Peripherals	$6,100 million
Telecommunications Services	$3,300 million
Computer Software	$2,800 million
Automotive Parts and Accessories	$9,495 million
Telecommunications Equipment	$4,888 million
Medical Equipment	$1,365 million
Mining Industry Equipment	$3,694 million
Aircraft and Parts	$1,155 million
Defense Equipment	$2,500 million

California companies are extremely competitive in all of these sectors. In 1997, California exported $2.5 billion in goods to Australia, making it our thirteenth largest export market. This represented a 18.33-percent increase from 1995. The bulk of California's products are in industrial machinery and computer equipment. Furthermore, California exports to Australia represented approximately 20 percent of total US exports to the continent.

California's good relations with Australia are based on trade, common business practices and a similar heritage. Australian offices located in California include: Australian Consulate General, the Australian Trade Commission, and the Australian-American Chamber of Commerce. Australia ranks as California's fourth best market for tourism after Japan, the UK and Germany. In 1996, there were 423,631 visitors from Australia to the US. Of these, 274,000 visited California, representing 5 percent of total California tourists. Some 60 percent of Australians visiting the US visit California, reflecting the strength of California-Australia ties relative to the rest of the US.

The California Energy Commission has been involved with Australia since 1988. According to a recent industry survey, the most prominent technologies involve cogeneration, wind energy, and energy efficiency and building standards. In 1989, a delegation of California firms visited Victoria, Australia sponsored by the California Energy Commission, Victorian Department of Industry, Technology and Resources, State Electricity Commission of Victoria and the US Foreign Commercial Service (US FCS) in Melbourne. Project opportunities were part of Victoria's $250 million Cogeneration Incentives Program. The trade mission resulted in $6.7 million in initial sales, and the Incentives Program expanded project opportunities from 40 to 189 projects. California firms opened offices in two Australian states. Follow-up resulted in $51 million in cogeneration equipment sales and technical services contracts for California firms in six hospitals (California Energy Commission Southeast Asia Programs and Activities Summary, Energy Technology Export Program, March 1995).

Economic Policy Framework

Australia began to hitch its future to the international economy in the 1980s by floating its currency, lowering tariff barriers and deregulating financial markets. The Labor Party's main initiatives were forging stronger relations with neighboring Asian nations as well as opening up sectors such as telecommunications, transportation and energy. Despite more than three years of sustained growth from 1993 through early 1996, the electorate tossed out the Labor Party in the biggest electoral swing in Australia's history. Most Australians cited economic policy as the main reason for their opposition to the Labor Party.

Prime Minister Howard approached his first two years in office pragmatically, pursuing middle-of-the-road policies. Half-way through his first term, however, Howard now seems to have realized that his coalition needs to become more proactive in order to survive this year's federal elections. First, Australians have been calling for sweeping tax reforms, including the introduction of long-overdue indirect tax on goods and services. In addition, the tax reforms now top the political agenda for the Liberal-National coalition because a progressive tax scale is seen as unfair to lower and middle-income earners. Said Howard last year: "If we can fix our taxation system, if we can re-balance [sic] the incentives, if we can get something that ceases to penalise [sic] our manufacturing exporters…I can't think of a single reform in an important area which will make a more fundamental contribution to realizing [sic] the great potential of our nation as we go into the 21st Century."

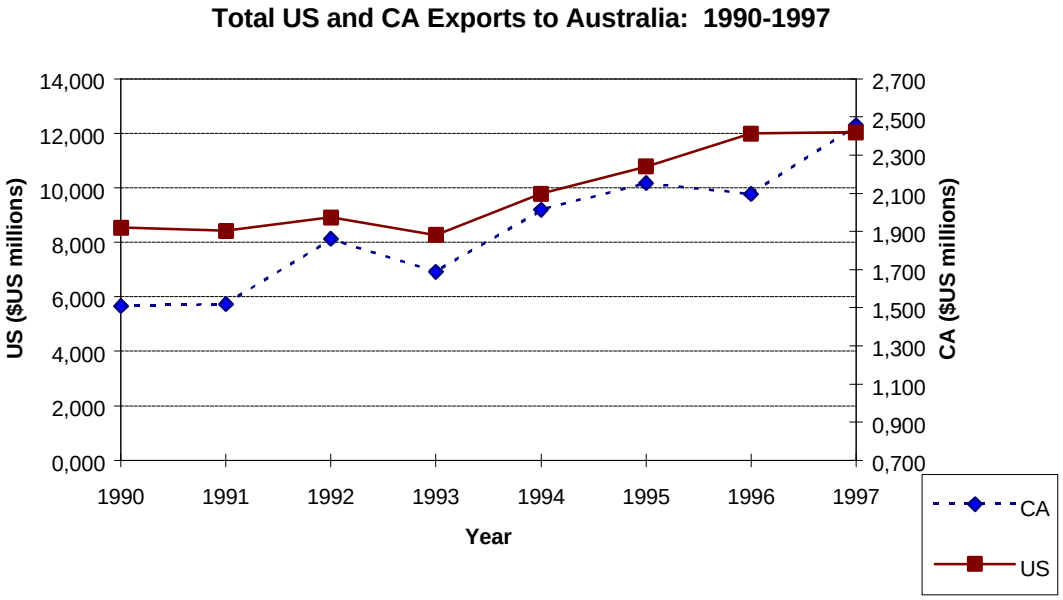
Second, Howard needs to tackle unemployment which has been stagnate at 8.5 percent over the last three years. For example, the government acknowledges the need to implement a workplace reform in order to dismantle a mesh of restrictive practices which "militate against the job creation required to reduce unemployment." According to an October 1997 Financial Times Survey, however, the Howard government has "barely scratched the surface of industrial reform. Moreover, "it is not clear it has the [political] will to tackle this area.

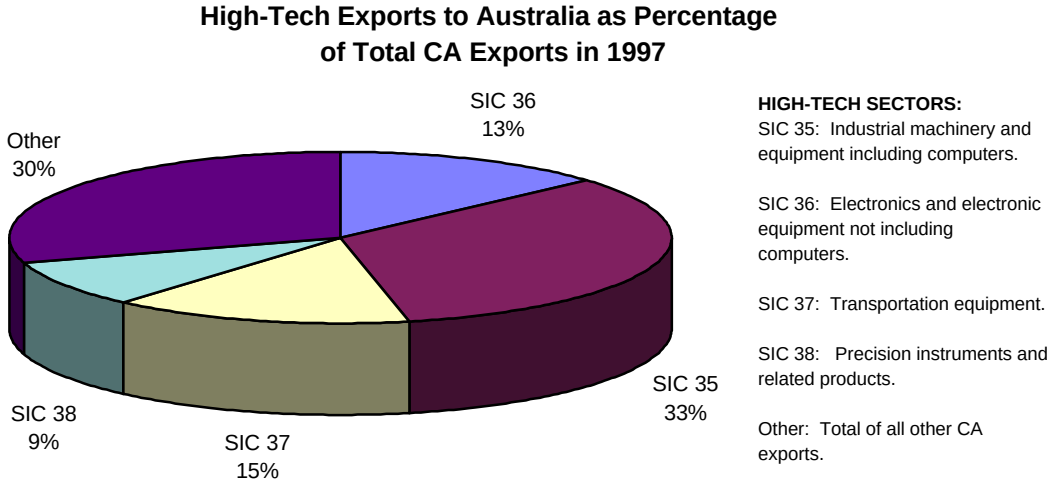
Nonetheless, continued liberalization of the Australian economy has resulted in an average tariff of 2.8 percent in 1996. Tariffs have been reduced by 72 percent since 1987. There are exceptions in traditionally heavily protected items such as motor vehicles, textiles, clothing and footwear. The tariff on motor vehicles is currently 22.5 percent and should be down to 15 percent by 2000. The most significant remaining barriers are some individual tariffs, local content requirements, and local preference penalties.

The current problems notwithstanding, a major boon to the Australian economy will be the arrival of the Summer Olympics to Sydney in the year 2000. Initial estimates that the games will inject $5.8 billion into the economy as well as create 150,000 full- and part-time jobs. Australia will be in the international limelight for an extended period with tourist revenues climbing to unprecedented levels. The new infrastructure needed for the 2000 Olympics will also greatly improve the attractiveness of both Sydney and Australia as business investment sites.

California investment into Australia is regulated. Significant liberalization has taken place as part of the general economic reform program, such as privatization of public-sector service functions in the telecommunications and aviation sectors and the reduction or elimination of restrictions on investments in mining, broadcasting and banking. The Foreign Investment Review Board (FIRB) examines significant acquisitions of interests in Australian businesses, nonresidential commercial real estate, and residential real estate (Country Marketing Plan, 1994).

Statistical Appendix





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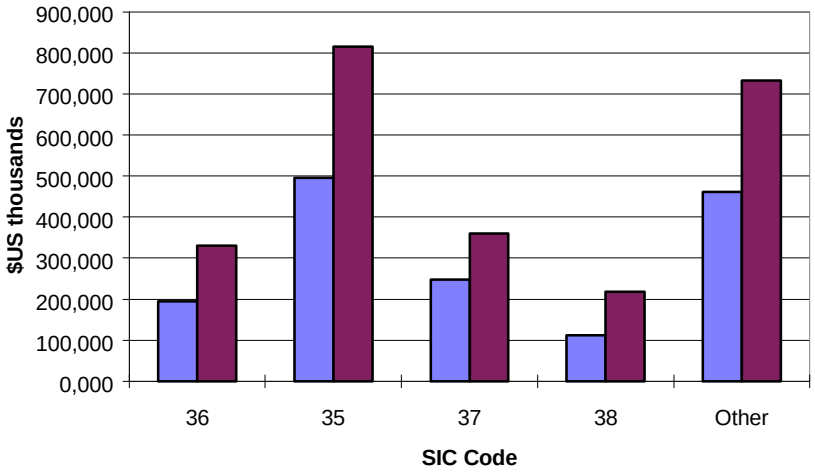
CA High-Tech Exports to Australia by Industry: 1990 vs. 1997



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4. Malaysia

Background

Malaysia was founded in 1963, through the union of the independent Federation of Malaya, the internally self-governing state of Singapore, and the former British colonies of Sarawak and Sabah. Singapore left the federation in 1965.

Malaysia was one of the founding members of ASEAN and views regional cooperation as the cornerstone of its foreign policy. Close, cordial relations with the US, Japan and the EC have consistently been maintained. Malaysia is a member of the UN, the Organization of the Islamic Conference, the Non-Aligned Movement, WTO, and APEC. Malaysia is a federation of 13 states with the capital, Kuala Lumpur, as a separate federal territory, as is the island of Labuan.

Malaysia is a federated constitutional monarchy with most real power residing in the hands of the prime minister. Dr. Mahathir bin Mohamad is the current prime minister and has led the country since taking power in 1981. A very hard-driving, forward-thinking leader, he is head of the Barisan National Coalition, which is comprised of the United Malays National Organization (UMNO) Baru. The ruling coalition currently holds a two-thirds majority in the House of Representatives necessary to pass constitutional amendments.

California and US Ties with Malaysia

In 1997, Malaysia ranked as California's eleventh largest export market, with total exports of $3 billion, a 6-percent drop from 1996. California exports to Malaysia currently represent 27.6 percent of total US exports to the country. Electronics and electrical equipment dominate California exports to Malaysia representing nearly 75 percent of total exports. In 1995, Malaysian FDI in California totaled $193 million, directly employing 900 people in the Golden State. However, between July 1997 and 1998, the Malaysian ringgit had depreciated by around 40 percent to the dollar, making it likely that investment into California from Malaysia will slow significantly for the next couple of years.

In 1995, the US passed Japan and Singapore to become Malaysia's largest trade partner, comprising 16 percent of Malaysian imports and purchasing 21 percent of their exports. As with Singapore, the leading US export sectors to Malaysia parallel those of California, and are in high-tech categories. In 1997, the US trade deficit with Malaysia totaled $7.2 billion, compared with $9.3 billion in 1996. In 1997, Malaysia ranked as the United States' sixteenth largest export destination, with total exports of $10.8 billion. The US is also one of Malaysia's largest foreign investors. US FDI in Malaysia increased 47 percent in 1996 to total $5.3 billion. US FDI in Malaysia is concentrated primarily in the areas of finance, manufacturing and petroleum.

According to the US DOC, the top ten prospects for exports are in the following sectors:

Sector	Estimated 1998 Market Size
Computer Hardware	$ 9,859 million
Aircraft and Parts	$ 2,200 million
Telecommunication Services	NA
Architecture/Construction	NA
Pollution Control Equipment	$ 280 million
Medical Equipment	$ 216 million
Electrical Power Systems	$ 4,000 million
Computer Software	$ 3,704 million
Franchising	$ 980 million
Industrial Chemicals	$ 3,075 million

California is very competitive in many of these growth industries and California exports to Malaysia should continue to grow well into the future as soon as the country recovers from the Asian financial crisis.

The US has consistently maintained friendly relations with Malaysia. US support for Malaysia has been demonstrated by cooperation in many areas, including narcotics enforcement, cultural exchanges and educational programs. The US has supported Malaysia's defense efforts by providing for Malaysian participation in US military education training programs and purchases of equipment under the foreign military program. The US also actively promotes American trade and investment in Malaysia.

California has other significant ties to Malaysia. According to the 1990 Census, there are approximately 8,490 Malaysian-born persons living in California. In recognition of California's importance to Malaysia, they have established various representative offices in the state, including the Malaysian Trade Office, the Malaysian Tourism Board, and the Malaysian Consulate General of Malaysia. In the spring of 1993, the Malaysian Ministry of Agriculture sent a representative on an exchange program to observe and assist with Agricultural Export Program's activities.

The California Energy Commission has been involved with Malaysia since 1992. Most interaction has been with Peninsular Malaysia's electric utility, Tenaga Nasional Berhad (TNB) and Tenaga Nasional Berhad Research and Development Sdn. Bhd., which have indicated a desire to work with the Commission in the future and to extend projects to further improve infrastructure in Malaysia (California Energy Commission, Energy Technology Export Program, 1995).

Economic Policy Framework

The Malaysian government in 1981 embarked on a "Look East Policy" which urged Malaysians to learn from the Japanese and South Korean development experiences. In 1985, the Industrial Master Plan (IMP) was formulated to provide a framework and indicative plan towards the realization of export-oriented, private sector-led industrialization. In the span of two decades, Malaysia transformed its economy from a third world nation dependent on the export of raw materials such as tin and rubber to an Asian Tiger driven by manufactured exports. The expansion and diversification of Malaysia's trade reflects the success of Malaysia's industrialization and export-promotion policies in the short- to medium-term.

Malaysia remains the world's leading producer of natural rubber and palm oil and is a net exporter of crude petroleum and natural gas. Malaysia had a GNP of $95 billion in 1996, with a per capita income of $10,750 (purchasing power parity). In 1997, Malaysian GDP grew by 7.6 percent. The Malaysian government expects an economic contraction of 1 to 2 percent, though some analysts think this may be optimistic. GDP growth for the first quarter of 1998 was negative 1.8 percent. The national savings rate is about 38 percent of GNP; inflation is around 5.4 percent; and there is full employment; however, a building boom is likely to come to an end as the effects of the Asian financial crisis are felt which will likely lead to job losses for tens of thousands of people. The government expects a budget deficit of around $2.5 billion for 1998, the first deficit in 10 years.

As the economic crisis around Asia worsens, it has become increasingly clear that Malaysia, too, will be negatively affected despite consistent denials by Prime Minister Mahathir. Government proposals for saving the country from the crisis have varied significantly, but currently focus on a demand-promotion strategy of higher budget deficits and increased spending on infrastructural projects, particularly roads and the Multimedia Super Corridor (see below). Specifically, Malaysia hopes to help revive the economy with $2.9 billion in infrastructure and social development spending, $6 billion in purchases of non-performing loans and assets from financial institutions, and putting about $4 billion towards recapitalizing banks. Mahathir hopes to obtain much of the money through bonds issued to foreigners, though with a Moody's sovereign risk rating of Baa2 make it unlikely that this goal will be realized in the near future.

The top priority of the current economic plan is the development of the Multimedia Super Corridor. The high-tech center, the brainchild of Mahathir, is aimed at attracting the world's top high-tech firms, creating a Southeast Asian version of Silicon Valley and making Malaysia the information epicenter of the region. The Multimedia Super Corridor is a huge infrastructural undertaking that will be anchored by Malaysia's new international airport in the south and the world's tallest building, the Petronas Twin Towers in the north.

A successful implementation of this strategy would be an excellent opportunity for California, which is well-positioned to take advantage of the Super Corridor project. In fact, Prime Minister Mahathir paid a visit to the Silicon Valley in early 1997 to woo California investment in the project. However, in July 1998, Mahathir also said that Malaysia may be forced to seek aid from the IMF, which would force the country to abandon inflationary strategies such as those proposed by the government.

Malaysia has long been dependent on external trade but has only recently begun to liberalize its economy. In 1993, the Malaysian government reduced or eliminated tariffs on some 600 goods. In 1994, the government reduced tariffs on over 500 additional items by 5 to 30 percent. In addition, Malaysia has agreed to substantial tariff reductions on a variety of goods under the Uruguay Round of the GATT, many of them in the high-tech sector. Since 1988, Malaysia's average weighted tariff has declined from 13.6 percent to 8.1 percent in 1998. However, tariffs are still the main instrument used to regulate the import of goods. As a general rule, tariff protection is lower for raw materials and higher for goods with a higher value added. Tariffs are also higher, often over 100 percent, on goods where there is significant local production.

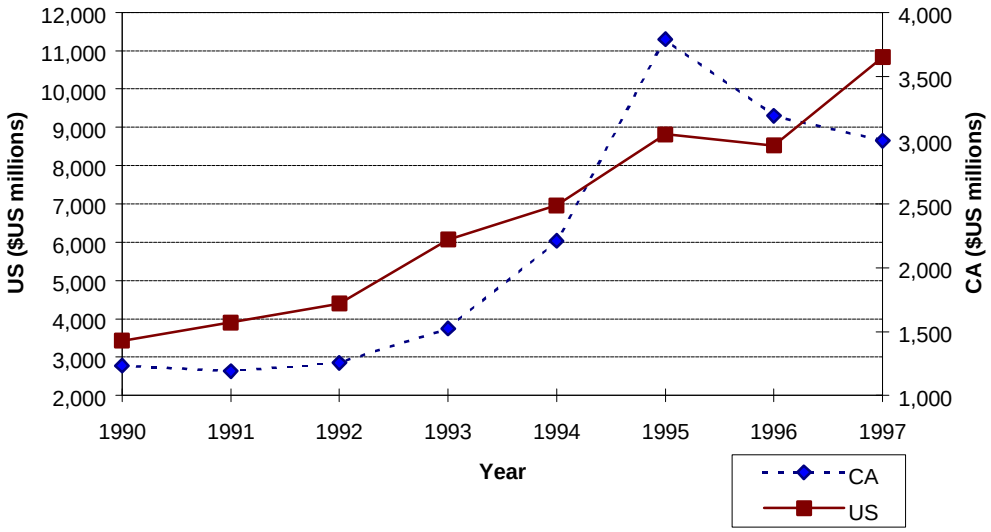
The Malaysian government promotes investment in manufacturing. Multinational corporations control a substantial share of the manufacturing sector and are dominated by American and Japanese firms. In 1986, Malaysia relaxed restrictions on foreign equity and expatriate staff. There are signs that the economic crisis is forcing Malaysia to open its economy even further to foreign investment. New guidelines allow for 100 percent foreign ownership of manufacturing projects under certain conditions. In July 1998, the government announced that Malaysia increased to 51 percent, from 30 percent, the equity foreigners can hold in wholesale and retail trading companies. It is likely that, sector by sector, more of the economy will open to foreign investment in the coming months as the government battles the crisis.

Malaysia is not a party to the WTO Government Procurement Agreement. The government policy calls for procurement to be used to support national objectives such as transfer of technology to local industries and enhancing Malaysia's export capabilities. As a result, foreign companies do not face a level playing field in competing for contracts and in most cases are required to take on a local partner before their bid will be considered. Some US companies have voiced concerns about the transparency of decision-making processes. Contracts under $2 million are reserved for domestic firms.

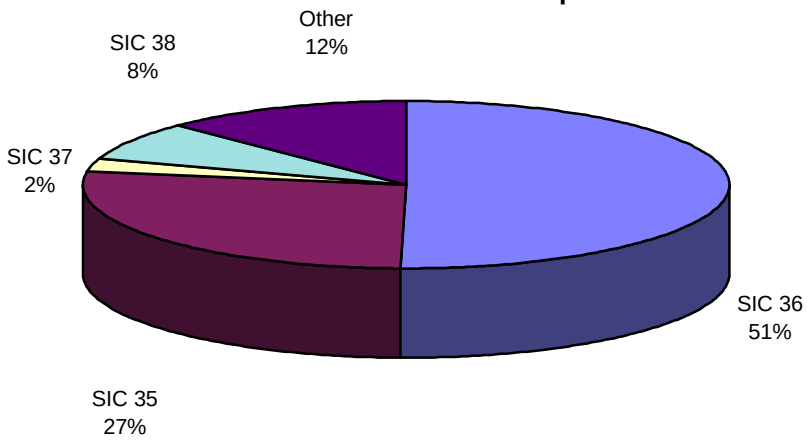
Malaysia has made significant progress in recent years toward strengthening legislation and improving enforcement of IPR. The incentive to improve its record is tied to its goal to develop the Multimedia Super Corridor. Trademark infringement and patent protection have not been serious problems in Malaysia. Malaysia also provides copyright protection to all works published in Berne Convention member countries. Regardless of improved protection, software piracy losses have mounted, totaling $106 million in 1996. A new and growing source of concern for the US is the establishment of a number of plants reportedly manufacturing pirated CDs and CD-ROMs. The Malaysian government is aware of the problem and has expressed its determination to move against illegal operations.

Statistical Appendix

Total US and CA Exports to Malaysia: 1990-1997



High-Tech Exports to Malaysia as Percentage of Total CA Exports in 1997



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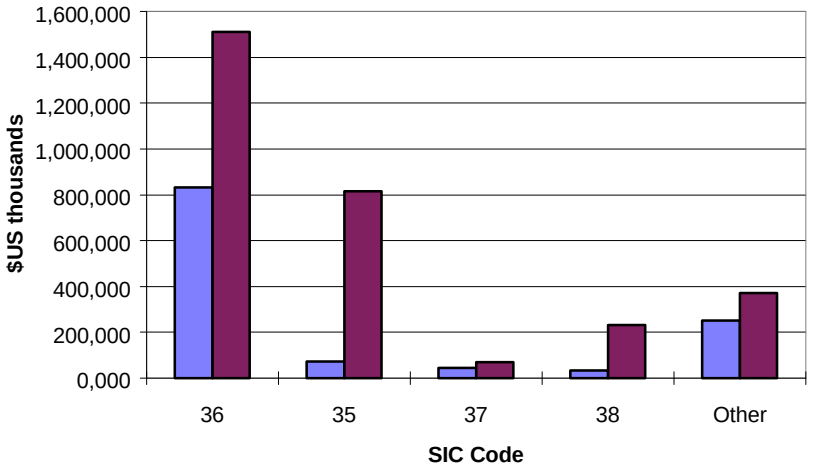
CA High-Tech Exports to Malaysia by Industry: 1990 vs. 1997



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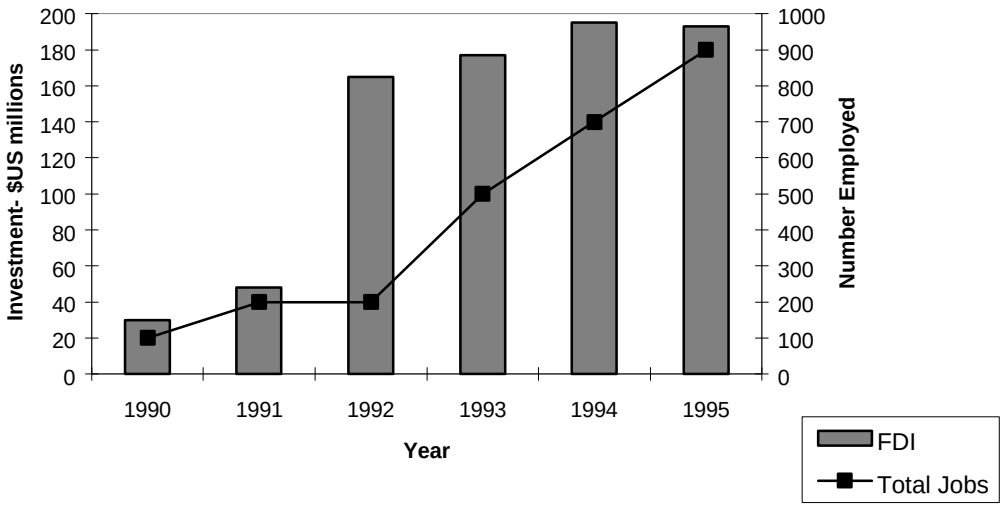


5. Thailand

Background

Founded in 1238, the Kingdom of Thailand, a constitutional monarchy with a population of 60 million people, enjoys the distinction of being the only Southeast Asian country that has never been colonized. The monarch had absolute power until a revolution in 1932 imposed constitutional limits on the king's power. Known as Siam until the kingdom was renamed in 1939. Thailand's current king and chief of state, King Bhumibol Adunyadet, has reigned since 1946.

Until the present financial crisis, Thailand had been one of the fastest growing economies in the world through the 1990s, with an average growth rate of 6.7 percent (between 1990-1996). Real GDP growth for 1996 was 6.7 percent, due primarily to investment rather than gains in productivity. However, as the first country to fall to the Asian crisis in mid-1997, Thailand's GDP growth for that year plummeted to a mere 0.4 percent. July 1998 forecasts predict a 6- to 7.5-percent contraction for that year. As a result, imports into Thailand have plunged; from April 1996 to April 1997, the trade balance changed from a deficit of $12.2 billion to a $3.2 billion surplus.

Thai GNP totaled $177.5 billion in 1996 with a per capita GNP of $6,700 (purchasing power parity). This is somewhat deceptive as per capita income in Bangkok is nearly four times that of the rest of the nation.
Traditionally, unemployment in Thailand has been low, rarely moving much above 3 percent. However, by the time Thailand emerges from the current crisis, hundreds of thousands are expected to have lost their jobs, pushing up the unemployment rate significantly. In addition, inflation has historically been kept in check as a result of conservative monetary policy and fiscal discipline. However, as the baht lost over 40 percent of its value from July 1997 to July 1998, consumer prices increased about 11 percent over that time. If the Thai government revives a huge canal construction project as it is considering, inflation will continue to rise.

Thailand's trade relations have traditionally been oriented toward distant markets, particularly those in North America and Europe. This trend is likely to continue for the foreseeable future given the weak state of many of the region's economies. Thailand's trade pattern has been to import capital equipment and to export manufactured products such as textiles, computer products and processed foods to the industrialized markets. However, Thailand reached a juncture shortly before the crisis in which the country is no longer a low-cost producer, but nor does it have the skilled work force needed to produce sophisticated, less price-sensitive goods.

The majority of Thailand's economic success has been the laissez-faire economic policy of its government. The Royal Thai government maintains an open, market-oriented economy and encourages FDI as a means of promoting economic development, employment and technology transfer. Thailand welcomes investment from all countries and seeks to avoid dependence on any one country.

California and US Ties with Thailand

The US and Thailand have had traditionally strong ties. Thailand is one of five countries in Asia that has a bilateral defense treaty with the US. In November 1996, President Clinton became the first US president to visit Thailand since Richard Nixon in 1969. During his brief visit, he praised Thailand's commitment to democracy and their cooperation in fighting international drug trafficking. Although Thailand is no longer a significant opium producer, it is a key route for the Golden Triangle (Burma, Laos and Thailand) heroin trade. During Governor Wilson's 1997 Asia Mission, he met with several prominent government and business officials, including King Bhumibol Adulyadej, then-Prime Minister Chavalit Yongchaiyudh, Governor of Bangkok Bhichit Rattakul and CP Group Chairman Dhanin Chearavanont.

Thailand ranks as California's thirteenth largest export market. In 1997, California exports to Thailand totaled $2.25 billion, a 1.5-percent increase over 1996 levels, though exports have fallen dramatically in 1998. California exports represent nearly one-third of total US exports to Thailand. California's biggest export sector to Thailand is electronics and electrical equipment.

Thailand ranks as the United States' twenty-first largest export market. In 1997, US exports to Thailand totaled $7.36 billion, an increase of 2 percent from 1996 levels. The US trade deficit with Thailand rose to $5.2 billion, up from $4.1 billion in 1996. According to the US DOC, the top ten prospects for US exports are in the following sectors:

Sector	**Estimated 1998 Market Size**
Airport and Ground Support Equipment	$ 500 million
Electric Power Systems	$ 4,900 million
Electronic Components	$11,242 million
Computer Software	$ 649 million
Telecommunication Equipment	$ 4,500 million
Process Controls for Industry	$ 2,047 million
Pollution Control Equipment	$ 1,500 million
Medical Equipment	$ 700 million
Education, Training Services and Supplies	$ 675 million
Automotive Services/Parts and Equipment	$ 7,813 million

California is a global leader in most of these industries, namely computers, software, telecommunications and medical equipment. Traditionally, the US has been the largest foreign direct investor in. With the baht at record lows, many Western groups are buying up companies throughout Asia, including Thailand. The US is the top non-Asian buyer and may well constitute the biggest foreign investor in the region. The total stock of US FDI in Thailand totaled $5.3 billion in 1996, a 21.8-percent increase over 1995. US FDI in Thailand is concentrated primarily in the manufacturing (principally high techology) and petroleum sectors.

Economic Policy Framework

Thailand's economic development policies are based on a competitive, export-oriented, free-market philosophy. Its economy is in transition from an agricultural economy to a more open broad-based one with a large manufacturing sector. Although about half of the Thai labor force still depends on agricultural production for the major part of their income, manufacturing, wholesale and retail trade, services and other industries now account for about 90 percent of GDP. Recent governments have been consistent in employing a laissez-faire economic policy, emphasizing rural development and reducing income inequality to address the economic imbalances created through the country's rapid industrialization.

To maintain its long-term competitiveness, Thailand must tackle several areas of concern, including infrastructure, education and productivity gains. Infrastructure development is key if Thailand is to become the regional financial and business center it strives to be. But investment has been unbalanced with telephones being readily available while mass transit is next to worthless. Another key to Thailand's future is education. Thailand cannot hope to compete with China and India on cheap labor yet they lack the educational system to produce a skilled labor pool to move into value-added and high-tech manufacturing. Although the government has made gains in increasing the amount of mandatory education, Thailand's education system is poor by East Asian standards.

Tariff and non-tariff barriers are diminishing as significant obstacle to US and California exports to Thailand and will continue to improve through Thailand's commitments under the WTO, APEC and ASEAN free trade agreement. Thailand's average weighted tariff rate currently stands at around 15.2

percent, but it has declined significantly from 38 percent in the early 1990s. Pre-WTO tariff rates on Thai agricultural imports ranged from 60 to 80 percent. Most of these tariffs will decline to the 30 to 40 percent range by the year 2004, still high when compared to its neighbors in Malaysia, Singapore and Indonesia. Agricultural sectors that have and will benefit from tariff reductions include fresh citrus and soy products. Those that will still find it hard to penetrate the Thai market include producers of meat products, certain fresh and dried fruits, juices, wine and spirits and other packaged products. Thailand is continuing with tariff reform begun at the end of 1994, though progress has been impeded recently due to the effects of the Asian crisis on government revenues. And during 1997, some tariffs were actually increased on items such as cameras, clocks and spectacles. Finally, automobiles and parts and other "sensitive" products are not included in the current tariff reform package.

The most significant non-tariff barrier is the corruption, lack of transparency, and arbitrary nature of tariff imposition within the autonomous Customs Department. Importers into Thailand consistently complain about the network of bribes that must be paid to Thai customs officials in order to avoid costly delays in the delivery of products. This situation will improve as the Customs Department has agreed to use the harmonized system and has begun the installation of an electronic data interchange which will make the import of goods much more efficient. The most serious investment barriers are the complicated specifications regulating foreign ownership and control of companies, including several sectors in which foreigners are outright prohibited from participation.

US exporters have actively pursued government procurement opportunities mostly in the power generation and transmission, petroleum, refining and petrochemicals, telecommunications, transportation, environment, health care, and defense equipment sectors. The "Prime Minister's Procurement Regulations" govern public-sector procurement. The regulations specify nondiscriminatory treatment for all potential bidders. The regulations, however, do provide preferential treatment for domestic suppliers who receive an automatic 15-percent advantage over foreign bidders' initial bid.

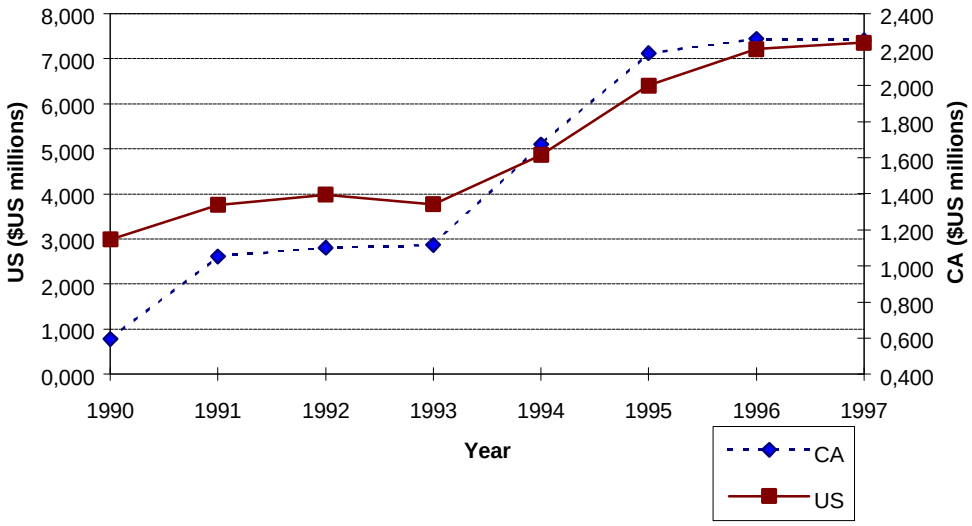
Despite the passage of significant legislation protecting the rights of copyright, patent and trademark holders in Thailand, enforcement of intellectual property rights continues to be one of the leading trade issues between the US and Thailand. Substantive problems remain with aspects of the Thai copyright law. Enforcement of existing legislation is minimal and weak, while large quantities of infringing goods continue to be sold at the retail level. Since November 1994, Thailand has been on the Special 301 "watch list." In September 1996, the Thai parliament passed a long-awaited law establishing an intellectual property and international trade court, which began operations in December 1997. The IPR court is intended to provide a "one-stop shop" which should make it possible to obtain a warrant, conduct a raid, and arrest and sentence an infringer in one day. Although allegations of irregularities continue to undermine confidence in local police authorities, cooperation and coordination among enforcement officials has improved as a result of the creation of an interagency committee on the suppression of IPR piracy. Seizures of infringing materials in 1997 more than tripled over the previous year, while arrests grew by 48 percent.

In December 1997, a new tax treaty between the US and Thailand entered into force. The new treaty provides for the elimination of double taxation and gives US firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

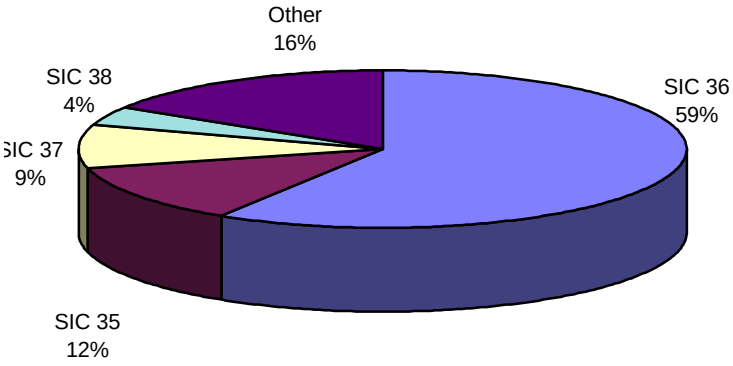
The Asian crisis has led to a "Buy Thai" campaign, which is intended to promote domestic production or locally owned and operated businesses. The program is likely to gather momentum throughout 1998, as the devalued baht makes imports prohibitively expensive. The preference for "Thai-owned" businesses is of great concern to foreign investors.

Statistical Appendix

Total US and CA Exports to Thailand: 1990-1997



High-Tech Exports to Thailand as Percentage of Total CA Exports in 1997



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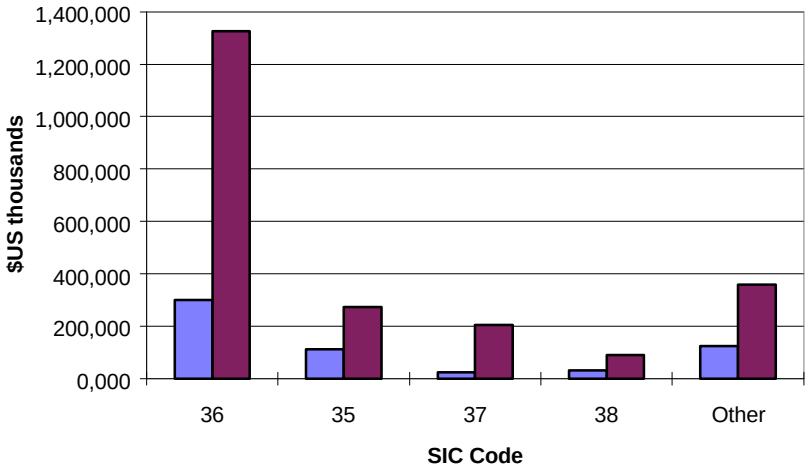
CA High-Tech Exports to Thailand by Industry: 1990 vs. 1997



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6. Indonesia

Background

Indonesia is the world's largest archipelagic country. Supporting a population of 206 million, it has the world's fourth-largest population. Until the Asian financial crisis, Indonesia had come a long way in its social and economic (though not political) development. After President Sukarno was forced from office in 1966, the economic situation improved steadily.

For 20 years, the economy grew at an average annual clip of 6.8 percent. During this time, the number of Indonesians living in poverty has declined from 60 percent in 1970 to 15 percent in 1996. When President Suharto took power in 1967, Indonesia's GDP per capita was among the world's lowest at $70, half that of India and Bangladesh. In 1996, total GDP reached $213 billion and per capita GDP hit $3,310 (purchasing power parity).

However, after the financial crisis hit in October 1997, and the rupiah lost 80 percent of its value, the nation's economy and President Suharto's legacy lay in ruins. Poor political management combined with severe drought and devastating forest fires to further deepen the economic crisis. Riots over prices spread, and in May 1998, Suharto, after 32 years in power, was forced to step down and be replaced by his designated successor and vice president, Bacharuddin Jusuf (B.J.) Habibie. In the first half of 1998, the Indonesian economy shrank 12 percent and is expected to contract by at least 15 percent for the entire year. Inflation is running at nearly 60 percent, and the World Bank expects 40 percent of the population to fall below the poverty line. Habibie has asked the Indonesian people to fast twice per week to avoid having to import rice.

Indonesia was one of the founding members of ASEAN. Indonesia restored diplomatic relations with China in 1989, and with the end of the Cold War, has supported efforts to gradually expand a regional security dialogue under the aegis of the ASEAN Regional Forum to all Asia-Pacific nations. Indonesia has also advocated the expansion of ASEAN to include all the nations of Southeast Asia. A strong supporter of APEC, Indonesia hosted the ministerial and leaders' meeting in November 1994.

Given that Indonesia's post independence political history has been dominated by two authoritarian figures, the country's political system is poorly developed, and with the current political situation currently in flux, it is unclear how it will be resolved. Previously, the president, by far the most important political figure, was elected indirectly by a combination of the military and civilian-elected representatives with the former, always a powerful force in Indonesian politics, holding more votes. Ongoing student protests have forced President Habibie to promise democratic reforms and with such an unstable political situation, Habibie has little choice but to comply, at least in part, with the protesters' demands. In fact, a mid-August announcement by Habibie declared a marginally liberalized, though still restricted system of presidential election. Golkar, the country's most powerful political organization, has been taking pains to show that it is no longer its old, authoritarian self. On July 11, the political party, for the first time, elected a chairman in a free vote. The winner was Akbar Tanjung, an ally of Habibie which will lend political support to a president who enjoys no legitimacy except that of having been appointed by Suharto.

Despite Golkar's reform, other new political actors are emerging to take advantage of the political weakness of the central government. These challengers include Megawati Sukarnoputri, the daughter of General Sukarno and leader of an Indonesian Democratic Party (PDI) faction, and the Nahdlutul Ulama, a Muslim organization. Elections are scheduled for an unspecified date in late 1999. The opposition wants to speed this date, but can agree upon neither a candidate, nor a mechanism for elections.

California and US Ties with Indonesia

Indonesia is currently California's twenty-eighth largest export market, down from a 1997 ranking of twenty-first. First quarter 1998 exports fell 25 percent from the same quarter on year before. This drop follows impressive growth over the past 3 years. In 1997, California exports totaled $955 million, a 17.5-percent increase. This followed a 50.4-percent jump in 1996 and a 34-percent increase in 1995. Indonesian imports from California represent 21 percent of the total from the US. Increased trade with Indonesia was part of a region-wide trend of increased California exports to the ASEAN countries. Leading California exports to Indonesia include industrial machinery, computer equipment, transportation equipment, and agricultural products. Key sectors of potential growth for California exports include energy, transportation and telecommunications. Indonesia has lagged far behind many of its fellow ASEAN countries (Singapore, Malaysia, Thailand and the Philippines) as a market for California exports.

California's ASEAN headquarters were established in July 1996 when the state opened its ninth Office of Trade and Investment in Jakarta. During Governor Wilson's 1997 Asia Mission, he met with several prominent members of the Indonesian government and business community, including then-President Suharto, then-Trade Minister Tunky Ariwibowo, and Jakarta Governor Suryadi Soedirdja. During this trip, then-California Trade and Commerce Secretary Julie Meier Wright met with then-Transportation and Communication Minister Haryanto Dhanutirto, and then-Post and Telecommunications Minister Joop Ave.

The US ranks as Indonesia's second largest trade partner behind Japan, purchasing 14 percent of Indonesia's exports and representing 12 percent of its imports. In 1997, Indonesia ranked as the United States' twenty-eighth largest export market. US exports to Indonesia have more than doubled since 1988 totaling $4.5 billion in 1997, though this will fall significantly in 1998. The US trade deficit with Indonesia was approximately $4.7 billion in 1997, a $411 million increase from 1996. The stock of US FDI in Indonesia was $7.6 billion in 1996, a 14-percent increase over 1995 levels. This number will increase as US firms have been taking advantage of rock-bottom prices for Indonesian companies. US FDI in Indonesia is concentrated primarily in petroleum, manufacturing and finance.

The following is a list of the ten best US exports as selected by US DOC. It is important to note, however, that these estimates were made before the financial crisis.

Sector	**Estimated 1998 Market Size**
Construction Equipment	$10,897 million
Franchising	$ 2,150 million
Telecommunications Equipment	$ 2,170 million
Electrical Power Systems	$ 3,150 million
Architecture, Construction and Engineering Service	$ 3,650 million
Building Products	$ 9,712 million
Pollution Control Systems and Equipment	$ 1,300 million
Food Processing and Packaging Equipment	$ 468 million
Chemical Machinery	$ 233 million
Airport and Ground Support Equipment	$ 60 million

In general, US-Indonesia relations have been good since Suharto came to power. The US has important economic, commercial and security interests in Indonesia because of its strategic location. The US and Indonesia share the common goal of maintaining peace, security and stability in the region and maintain a dialogue on threats to regional security. Points of friction generally focus on Indonesia's poor human rights and worker rights record. USAID has been a major player in Indonesian development, focusing its efforts on agricultural efficiency, birthrate reductions, infrastructure projects, and reducing the government's dependence on oil revenue.

Economic Policy Framework

It is now difficult to determine what the Indonesian government's economic strategy is, or if it even has one, particularly in the long-term. For the moment, the government has been focusing its efforts on obtaining financing from foreign governments and the international financial institutions to plug its fiscal deficit. Its domestic economic policy has, under Habibie, centered on directing government money to subsidize basic foods for the poor. Unfortunately, no coherent strategy has emerged for restoring business confidence and ridding Indonesia of the corrupt and nepotistic ways of Suharto.

For now, economic policy will likely follow the IMF's and World Bank's new prescriptions, which, unlike earlier plans, include "humanitarian" expenditures. Much like earlier versions, the most recent agreement to restart the IMF's $43 billion package (IMF 4) calls for government austerity and high interest rates. However, unlike the previous three, the new agreement also permits the subsidizing of key commodities and allows for more social spending and higher budget deficits. Another key economic policy reform will focus on the creation or modification of new bankruptcy law to help facilitate the restructuring of the corporate sector, and allow the sector to get its productive assets back to work.

The most critical economic plans will focus on saving Indonesia's financial sector, but there is no consensus on how to go about doing this. Of more than 200 local banks, a mere handful are still solvent. There is general agreement that most banks ought to be closed down, leaving the country with fewer, but stronger lenders. But nobody knows how to manage this without destroying whatever confidence remains in the healthy few. Government pledges to guarantee deposits have been unsuccessful in that in May 1998, there was a run on the country's largest private bank, Bank Central Asia, that forced it under. The government's current bank policy has been to print money to keep them afloat.

One key problem is that the government has not been able to allay the fears of the ethnic Chinese, the primary creators of wealth and main victims in the May riots. Although they make up only 3.5 percent of the population, they control around 60 percent of its wealth. Tens of thousands of ethnic Chinese Indonesians have fled the country, and many more are considering doing so. While Habibie has paid some lip service to their plight, he has also said that if they go, others will simply take their place. If their entrepreneurial skill and experience cannot be retained, Indonesia will fall deeper into the economic abyss and take years longer to emerge.

In order to attract foreign investors, Indonesia has implemented some piecemeal reforms. In May, the government announced, without giving specifics, that it would implement reforms of investment procedures to cut bureaucracy and increase transparency. One recent economic reform was the IMF-mandated elimination of the monopolies in plywood, cloves and palm oil run by the children and friends of now ex-dictator Suharto.

In June, Indonesia solicited the help of some of the world's largest investment-banking houses to help sell stakes in 12 state-owned companies. This is not a radical idea by Indonesian standards in that privatizations have been under consideration for the past decade. After the 1994 sale of PT Indosat, a telecommunications company, the government spoke of 200 public offerings of government assets before 2000. Currently, however, there is serious doubt whether now is the right time to be selling off previously-valuable companies when assets are so cheap. Even officials at the World Bank say that privatization is not high on their list of the urgent repairs needed in the Indonesian economy.

Indonesia's foreign debt is among the largest in the developing world and continues to grow. In 1996, the unofficial total was around $100 billion. Agreements with the IMF have led to commitments for package deals of $47 billion to bridge deficits. In order to bring the financial hemorrhaging under control and live up to agreements made with the IMF, the Indonesian government announced in August 1998 that it would halve its budget deficit in 1999 and cut inflation to single digits in 2000.

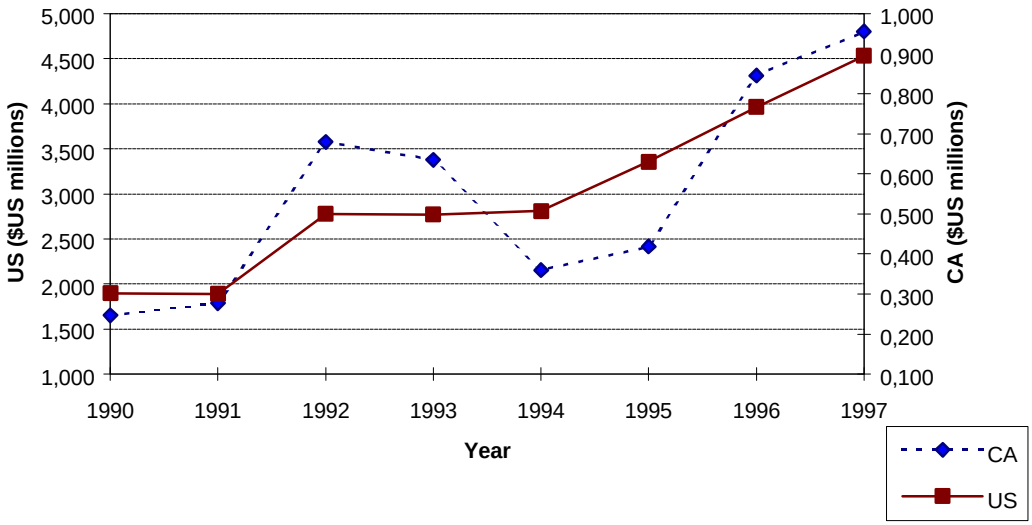
The crisis has accelerated tariff reduction and market liberalization. Since 1996, the Indonesian government has issued deregulation packages that have reduced overall tariff levels, simplified the tariff structure, removed restrictions, replaced non-tariff barriers with more transparent tariffs, and encouraged foreign and domestic private investment. This process, in accordance with IMF agreements, has continued into 1998. Indonesia's applied tariff rates range from 5 to 30 percent, with major exceptions in imported distilled spirits and assembled passenger vehicles. In 1995, the government unveiled a comprehensive tariff-reduction package covering roughly two thirds of all traded goods, designed to reduce most tariffs to under 5 percent by 2003.

Regarding investment, ten previously protected sectors, including the automobile industry, were opened in 1995 and a requirement that all foreign companies divest their shares to Indonesians was eliminated. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum equity of 5 percent. In addition, the government has opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads, and water supply. Sectors closed to investment include television and radio broadcasting, theaters and video outlets, aircraft manufacture, logging, and wood processing. It is possible that, as the crisis progresses, these arenas, too, will be opened.

Lack of IPR protection is still problematic. In 1996, the USTR raised Indonesia to the Special 301 "priority watch list" from the "watch list" where it had remained since 1989. In the past year, development in Indonesia's protection and enforcement of IPR in the copyright area have shown some positive developments. In mid-1997, Indonesia stepped up enforcement of IPR, eased distribution restrictions of the recording industry, made progress in updating the copyright law and adhering to treaty standards, and launched a number of successful enforcement actions in the copyright area. The police have conducted several high-profile raids on stores selling pirated music and video compact disks and computer software. Indonesia is a member of the WIPO and in July 1997, the country acceded to the Paris Convention and the Berne Convention.

Statistical Appendix

Total US and CA Exports to Indonesia: 1990-1997



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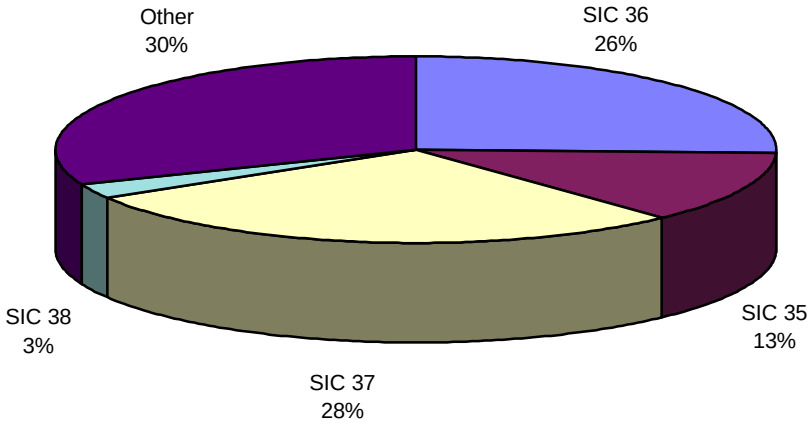

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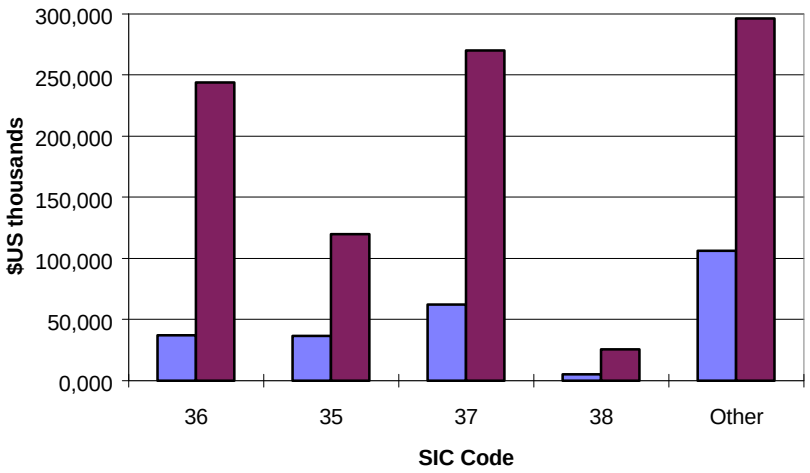
CA High-Tech Exports to Indonesia by Industry: 1990 vs. 1997



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E. South Asia

1. India

Background

Occupying only 2.4 percent of the planet's land area, but supporting over 15 percent of the its people, India boasts a population of over 930 million, second only to China in number. In 1996, Indian GNP totaled nearly $358 billion with a per capita GNP of $1,580 (purchasing power parity), the smallest per capita of any of the countries in this study. India is an extraordinarily diverse country. There are 16 official languages (of which, Hindi is the most widely spoken), and religious mixture of Hindus, Muslims, Christians, Sikhs, Jains, Buddhists, and Parsis. While about 83 percent of the population is Hindu, India has one of the world's largest Muslim populations with 120 million believers.

India has a federal form of government, though the central government has greater power in relation to the states, and is patterned after the British parliamentary system. The government exercises its broad administrative powers in the name of the president, who is elected indirectly for a five-year term by a special electoral college and whose duties are largely ceremonial. The national executive power is centered in the Council of Ministers which is led by a prime minister who is designated by legislators of the political party or coalition commanding a parliamentary majority. India's bicameral parliament consists of the Council of States and the House of the People, the latter of which has the most power. The Council of States has 233 directly elected and 12 appointed members that serve six-year terms while the House of the People consists of 543 elected and 2 appointed legislators that serve five-year terms. The states' governors are appointed by the president.

Elections in March 1998 brought the nationalist Bharatiya Janata Party (BJP) and its 20-party coalition, led by Atal Behari Vajpayee, to power with a majority of one vote. Held together by a tentative bond of convenience, the government, in its first four months of power, has become best known for nuclear tests and sudden policy reversals. Few expect the government to last more than one year. The government's national agenda says economic liberalization and globalization will continue, but will be "calibrated" to ensure that Indian industry is strengthened in the process. The budget announced on June 1, 1998, combined protectionism with internal liberalization, and included an increase in defense spending by 14 percent. The government has, however, encouraged some foreign investment in the energy sector, not coincidentally, shortly after the nuclear tests.

California and US Ties with India

Because of India's extensive inward focus in the past, US and California trade relations with India are relatively underdeveloped. US-India relations began improving in the 1980s. With the end of the Cold War, opportunities have arisen to further expand economic and diplomatic ties. Collaboration which started in agriculture during the 1960s first expanded into science and technology and now has expanded to a broad range of activities. In recognition of India's enormous consumer market of 200 million middle-class people, the US placed a US Commercial Center in India to help US companies penetrate the complicated Indian market.

Due to its large population (expected to reach 1 billion by 2000) and middle class, India is considered to be a Big Emerging Market. The US is India's largest trading partner: the US buys 17.4 percent of India's exports while supplying 10.5 percent of its imports. Therefore, in 1997, the US ran a $3.7 billion trade deficit with India. India ranked as the United States' thirty-second largest export market, with exports increasing 9 percent to $3.6 billion in 1997. US FDI in India increased 35.9 percent to $1.1 billion in 1996. US FDI in India is concentrated primarily in the manufacturing, banking and financial services sectors, though a substantial portion of new investment approvals are in infrastructure sectors.

According to the US DOC, the top prospects for US exports to India are in the following sectors:

Sector	Estimated 1998 Market Size
Computer and Peripherals	$ 5,084 million
Aircraft and Parts	$ 1,485 million
Telecommunications Equipment and Services	$ 5,722 million
Oil and Gas Field Equipment and Supplies	$ 1,975 million
Plastic Materials and Resins	$ 2,101 million
Industrial Chemicals	$ 3,690 million
Iron and Steel Plant Equipment Services	$ 1,350 million
Mining and Minerals Processing Equipment	$ 1,440 million
Hotel and Holiday Resorts	$ 2,669 million
Computer Software	$ 1,005 million

California is a global leader in most of these fields and in many other sectors of the Indian market which are expected to experience increasing demand. Currently, India ranks as California's twenty-ninth largest export destination, ahead of Chile and just behind Indonesia. California exports to India totaled $462 million in 1997, almost identical to the year before. However, this has followed a 52-percent increase in California exports to India in 1995. India is California's main global competitor in the software industry, but is also a primary source for many of the state's software engineers. There are significant opportunities for partnership between California software firms and India's dynamic software hub in Bangalore. An excellent prospect for California firms is the fact that the Indian budget for FY 1998-99 proposes a 35-percent increase in government spending on power, telecommunications and roads.

California has links to India in areas other than trade as well. California has a vibrant and entrepreneurial Indian community. Many Indian scholars and scientists come to California to study, enhancing links between California's Silicon Valley and the Indian subcontinent. Sixty-five thousand Indians visited California in 1996, a 25-percent increase over 1995. This was only 1.1 percent of visitors to California, but it represented 45 percent of Indian travel to the US. The California Division of Tourism has concluded that as the Indian economy grows and ties between California and India improve, the number of Indians visiting California for both business and leisure should rise.

Economic Policy Framework

At the time of India's independence, India was a leader among developing countries. However, judged by its potential, the needs of its people and the performance of its East Asian neighbors, India's first half century would have to be classified as an economic failure. Under the authoritative leadership of its first prime minister, Jawaharlal Nehru, India embarked on a planned, inward-looking development policy modeled on the Soviet Union. India emphasized heavy industry, public ownership and import substitution. In the 1970s, the economic growth averaged 3 to 4 percent annually, a rate that came to be known as the "Hindu rate of economic growth."

By the time economic crisis struck in mid-1991, the old system was financially, intellectually and politically bankrupt. Bold steps were taken between 1991-1993 which aimed to open India's economy to the outside world. Tariffs were cut, the import licensing system was liberalized, the currency was devalued and made convertible, and FDI was encouraged. Despite these reforms, India remains a protected market by world standards, with policies designed to promote Indian-owned and India-based enterprise.

The 1997 GDP growth rate has returned to the Hindu growth rate of around 4.3 percent, well below the 1990 to 1996 average of 9.2 percent. Inflation from April 1997 to April 1998 reached 8.3 percent, a rate that is likely to increase due to increased infrastructural and military budgets, tax increases and an expected fiscal deficit of 5.6 percent of GDP, not to mention the fact that the rupee has depreciated about 15 percent over the last year. India has a long way to go in terms of improving the quality of life

of its people. Despite the "green revolution," India's agricultural output has risen much slower than its Asian neighbors. Poverty continues to be severe and widespread: the World Bank estimates that 328 million Indians live below the poverty line (defined as earning less than $25 per month). Education below the university level is abysmal. More than half of India's adult population is illiterate, compared to less than 20 percent in China and less than 10 percent in Thailand. Unemployment sits between 22 to 23 percent.

Indian tariffs are among the highest in the world. The country's average weighted tariff has declined from 87 percent in 1991 to 20.3 percent in 1997. Over the same time period, the maximum tariff ceiling declined from 300 to 40 percent. The new budget implements an across-the-board tariff of 8 percent (with some exceptions). Justified as being roughly equivalent to the local tax burden paid by domestic producers, this is 3 percentage points higher than requested by business organizations and raises the tariff ceiling to 48 percent. Despite a dramatic improvement over the decade, Indian tariffs are still twice as high as the average in most East Asian and Latin American countries.

Restrictions on consumer goods imports, quantitative restrictions, and high tariffs remain serious impediments to trade, especially in the areas of consumer goods and agriculture. India's import license regime has been liberalized, but still limits market access for foreign goods. Not only have India's trade restrictions negatively impacted foreign companies, but they have prevented India from exploiting its comparative advantages in labor-intensive industries. India has come under intense international pressure from its main trading partners, including the US, to rapidly lower tariffs and lift its import controls. New Delhi has offered to remove controls on over 2,700 items over seven years, but the US and others want the phase-in period shortened to two or three years.

The new budget, despite its protectionist leanings, is also liberalizing to some extent. Markets for coal and petroleum products are to be partially deregulated. More importantly, the budget proposes to sell 74 percent of "non-strategic" state firms. Finally, the government's holding in Indian Airlines will be reduced to 49 percent over the next 3 years and the insurance sector is to be opened to "private Indian companies" (though it is unclear if foreigners will be able to hold minority shares). Many in the Indian business community believe that the government has no choice but to allow foreign participation. Indeed, the government has said that it would like to double FDI flows with the next two years, moving from a figure of $3.1 billion in fiscal year 1997/98, to about $6 billion.

India's rules on FDI are better than many other East Asian countries in areas such as telecommunications and energy. However, foreign investors complain nearly unanimously that the system does not work as it is supposed to. While the rules are liberal on paper, in practice, investors must deal with too many middle and lower level bureaucrats at both the state and national level. The result is that India received $2 billion in FDI in 1995 compared to $38 billion for China. One major impediment to India's further development is the poor state of its transportation infrastructure. This is one of several factors that lead to lower levels of FDI. The 35-percent increase in budget expenditure for infrastructure development should improve this situation. India's government procurement practices are neither transparent nor standardized and often discriminate against foreign suppliers.

Through tougher laws, greater awareness and better enforcement, India has made significant progress in IPR protection in both trademarks and copyrights. However, India remains on the USTR's Special 301 "priority watch list," mainly because of its failure to meet WTO obligations on patent protection for pharmaceuticals and agricultural goods. In 1996, pirated software accounted for 60 percent of the Indian market, down from 89 percent in 1991. This piracy cost software companies an estimated $140 million last year.

Statistical Appendix

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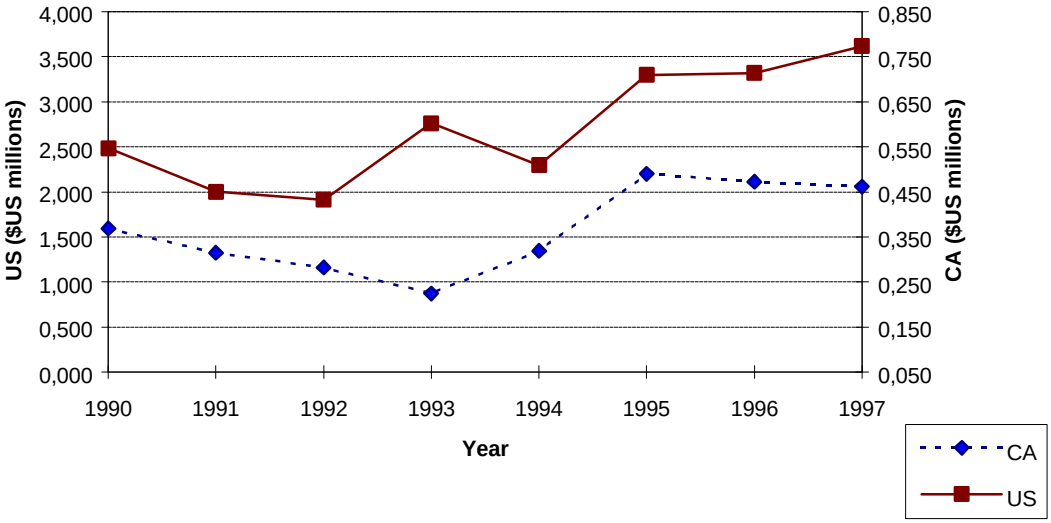
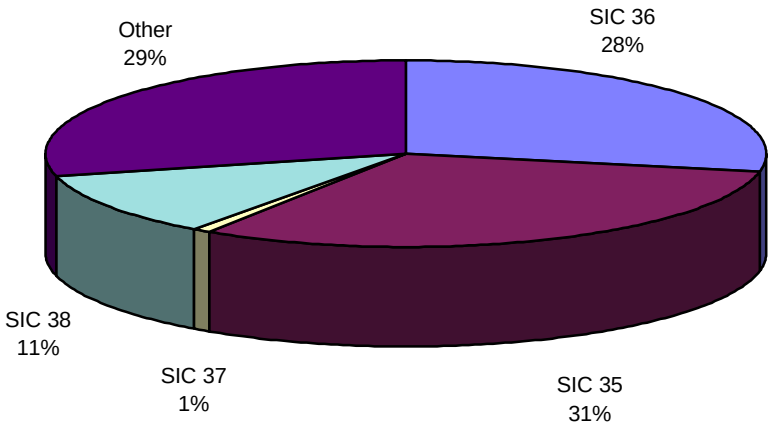


High-Tech Exports to India as Percentage of Total CA Exports in 1997



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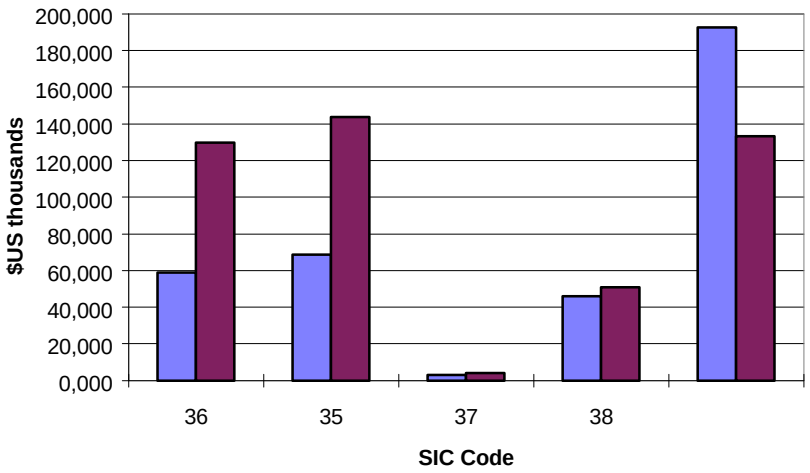

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F. Other Considerations

1. Egypt

Background

Egypt is a developing country with a population of 59.2 million people and a per capita GNP of $2,860 (purchasing power parity). Currently, $1.6 billion out of $4.4 billion total exports are devoted to petroleum and related products. The process of gradual political and economic liberalization are priorities under the current leadership that wants to diversify exports and privatize the cumbersome public companies to modernize the economy.

Egypt maintains regional ties through the Arab League, the Organization of African Unity and the UN. Recent years have seen the emergence of Egyptian officials as increasingly significant players in these organizations. In May 1989, Egypt was readmitted to the Arab league and the headquarters of this organization has since returned to Cairo. The former Egyptian Foreign Minister Abdel Meguid is the present Secretary General of the Arab League. President Mubarak chaired the Organization of African Unity from 1989 to 1990 and again in 1993. Finally, Boutros Boutros-Ghali, a former deputy prime minister, served as Secretary General of the United Nations.

Egypt is a republic with executive, legislative and judicial branches. The Egyptian constitution provides for a strong executive in which authority is vested in a president nominated by a two-thirds majority in the Assembly and elected by a national referendum. The president appoints one or more vice presidents, a prime minister and a cabinet. Egypt's unicameral legislative body, the People's Assembly, has 454 members — 444 popularly elected and 10 appointed by the president. The current president is Muhammad Hosni Mubarak, reelected for a third 6-year term in October 1993, and the majority party in the People's Assembly is the National Democratic Party.

California and US Ties With Egypt

The US is Egypt's largest supplier of imports, providing 17.7 percent in 1997. In the same year, the US trade surplus with Egypt reached $3.2 billion, up from $2.5 billion in 1996. US merchandise exports to Egypt totaled $3.8 billion, an increase of $694 million over the 1996 total making Egypt the United States' thirty-first largest export market. Key US exports to Egypt include industrial machinery and computers, electronics and electronic equipment, instruments, transportation equipment and fabricated metals. The stock of US FDI in Egypt increased 14 percent to $1.6 billion in 1996. Foreign investment is concentrated largely in the petroleum, banking and manufacturing sectors.

California stands to benefit significantly from improved US trade relations with Egypt as the state is competitive in all the primary exports categories. Currently, Egypt ranks as California's forty-second largest export market, with 1997 exports totaling $251 million, a 65-percent jump over 1996.

According to the US DOC, the following are the United States' top export prospects to Egypt:

Sector	Estimated 1998 Market Size
Mining Equipment	$ 179 million
Agricultural Equipment	$ 500 million
Architectural/Construct. Mater./Engineering Serv.	$ 730 million
Educational Training and Equipment	$ 80 million
Marine Fisheries Products (Seafood)	$ 264 million
Water Resources Equipment	$ 300 million
Packaging Equipment	$ 752 million
Printing/Graphic Arts Equipment	$ 146 million

Machine Tools and Metalworking Equipment	$ 120 million
Oil and Gas Field Machinery	$ 795 million

Since the Camp David accords, US-Egyptian relations have been strong. Egypt is the second largest recipient of US foreign assistance behind Israel. An important pillar of this bilateral relationship has been US security and economic assistance to Egypt, which expanded significantly in the wake of the Egyptian-Israeli Peace Treaty in 1979. This assistance mainly consists of Foreign Military Sales grants and Economic Support Fund grants which the Egyptians have used to support their military modernization program and stimulate economic growth. Projects which have stimulated economic growth include electrical power generation, telecommunications, housing and transport, and the financing of commodity imports such as raw materials and capital equipment. Ultimately, US assistance aims to promote Egypt's economic development, support US-Egyptian cooperation and enhance regional stability.

Total US aid to Egypt was $1.3 billion for military assistance and $815 million in economic support in 1996. Consequently, President Hosni Mubarak continues to support a strong US-Egyptian relationship based on shared interests in promoting regional peace and stability, revitalizing the Egyptian economy and strengthening bilateral trade ties. In addition, Egypt has played a crucial role in the Middle East peace process.

In September 1994, President Mubarak and Vice President Al Gore announced the US-Egyptian Partnership for Economic Growth and Development. The partnership aims at enhancing the US-Egyptian economic relationship, by improving trade, investment and business ties. The partnership is complemented by an independent President's Council of senior Egyptian and American business leaders who will highlight economic opportunities and identify obstacles to doing business. Despite recent diplomatic scuffles after the US did not support Boutros Boutros-Ghali for a second term as UN Secretary General, the two countries maintain good relations.

Economic Policy Framework

Egypt's economic turnaround began in 1991 with the pardon of $15 billion of Egyptian debt from allies for their support in the Gulf War. Bolstered by this windfall, the Egyptian government launched sweeping economic reforms to correct macroeconomic and external payment imbalances and to create a more open, market-oriented economy. Inflation fell from 20 percent 1991 to 4.6 percent in 1997. The introduction of a 10-percent sales tax and a reduction of energy subsidies greatly diminished the budget deficit that sat at 15 percent of GDP in 1991. The budget deficit fell to 0.7 percent in 1996, though increased in 1997 to 0.9 percent and is expected to keep rising through 1999 due to greater security spending, a lower-than-expected economic growth rate, continuing subsidies, and increased spending on major infrastructural projects. Loan servicing consumed 17 percent of export income in 1996. Due to the improved economic health, bond-rating agencies now rank Egypt's debt as highly as Chile's and Saudi Arabia's.

Additional IMF and World Bank programs are currently focusing on stimulation of private-sector development. Due to its low domestic savings rate, Egypt is depends heavily on FDI. The amount of FDI entering Egypt has increased significantly since 1991, nevertheless, this sum could drop as investors have lost some confidence in Egypt after the Luxor tourist massacre in November of 1997. The government has taken steps toward the eventual privatization of the massive public sector, which represents approximately 65 percent of industrial production. After an enthusiastic and impressive start in 1991, privatization and liberalization slowed in 1997 due to political pressure. While the 50 privatizations originally planned for 1998 proved to be too ambitious, the IMF target of 10 privatizations per quarter is expected to be met. Specifically, the telecommunications sector will be privatized, as will one of Egypt's state-owned banks. In addition, in December 1997, the cabinet passed draft legislation to legalize privatization of the four large public-sector insurance companies. Finally, even in sectors where there is little privatization, there will be an opening of state monopolies to private-sector competition.

Mobile telephone service became available in November 1996 and demand is high. As of April 1998, there were 83,000 mobile phone subscribers, a number expected to triple by 1999 and rise to 1 million by 2003. In addition, there are currently only 4 million phone lines for 59 million people. The US DOC predicts that as reforms proceed and the private-sector gains more strength, exporters of US products will find improved market opportunities in Egypt.

The Egyptian government is hoping to draw investment as well as cure social ills through their Southern Egypt Development Project. President Mubarak intends to "invade the desert" by bringing water to the enormous Egyptian desert, creating 520,000 arable acres for the Egyptian people. Currently, more than 90 percent of the population lives on 5 percent of the land in the Nile River Valley. By the year 2010, the River Valley will not be able to sustain the growing Egyptian population. The government hopes to divert one-tenth of the water it receives from Sudan and Ethiopia every year from Lake Nassar to the New Valley. Mubarak's aspiration is to move 3 million Egyptians to the New Valley in 20 years, drawing in foreign investment and new industry in the process. On the downside, this project is placing some strain on the budget, and has contributed to an expected deficit of approximately 1.4 percent of GDP for 1998.

Export promotion is foremost on the minds of the Egyptian government as the key to further integration into the global economy. Economy Minister, Boutros Ghali, stated that, "in the next 10 years, we must live and breathe by exports." The government wants to diversify exports as export of petroleum and related products currently account for close to 30 percent of exports. Without oil exports, Egypt exports totaled only $3 billion in 1996. In fact, current government planning aims to triple export volume within 3 years and raise all non-oil exports by 20 percent annually. The Egyptian government believes it can exploit the competitive edge the country maintains in cheap labor and supplant textile manufacturing in Southeast Asia due to lower costs.

Recent trade reform in Egypt has been significant. In keeping with its IMF commitments, the Egyptian government has promised to drop the standard maximum tariff rate to 40 percent, remove all non-tariff barriers, and streamline the import quality control system starting in early 1998. In 1996, the average trade weighted tariff was 17 percent. Currently, tariffs on computer software sit at 5 percent, and 15 percent on various processed foods. In addition, in order to achieve the status of regional economic power as it seeks to do, Egypt wants to increase trade activity with Africa through joining the Community of East and South Africa (COMESA) and is committed to an Arab common market by 2007. Egypt's success in its economic liberalization plan depends on the government's ability to maintain its current rediscovered enthusiasm in the face of political pressures.

Egypt is a member of the GATT Standards Code. The government pledged that it would not introduce any new non-tariff barriers as it reduced tariff rates and eliminated import bans. However, when the import ban list was reduced in 1993 many of the items that came off that list were added to the list of commodities requiring inspection for quality control before importation. The quality control list now consists of over 130 items from meats, fruits and vegetables to household appliances. On January 1, 1998, most textiles were removed from the import ban list, but were slapped with a 54-percent tariff. Although this tariff is high, the move may be seen as the government's willingness to stand up, to some extent, to a powerful political group. Importers have reported that the testing procedures for domestic and imported goods often differ and that tests are conducted with faulty equipment by an official who makes arbitrary judgments.

Foreigners must also contend with various barriers to investment. The US-Egypt Bilateral Investment Treaty (BIT) was implemented by both parties in 1992. It obligates Egypt to maintain critical elements of an open investment regime, including MFN treatment of foreign investment. The treaty also establishes procedures for US investors in Egypt directly to enforce the treaty's obligations through international arbitration. Concerted structural reforms are still needed for the direct investment to succeed. Priority concerns for investors include corruption, bottlenecks in ports and customs, and arbitrary tax inspections.

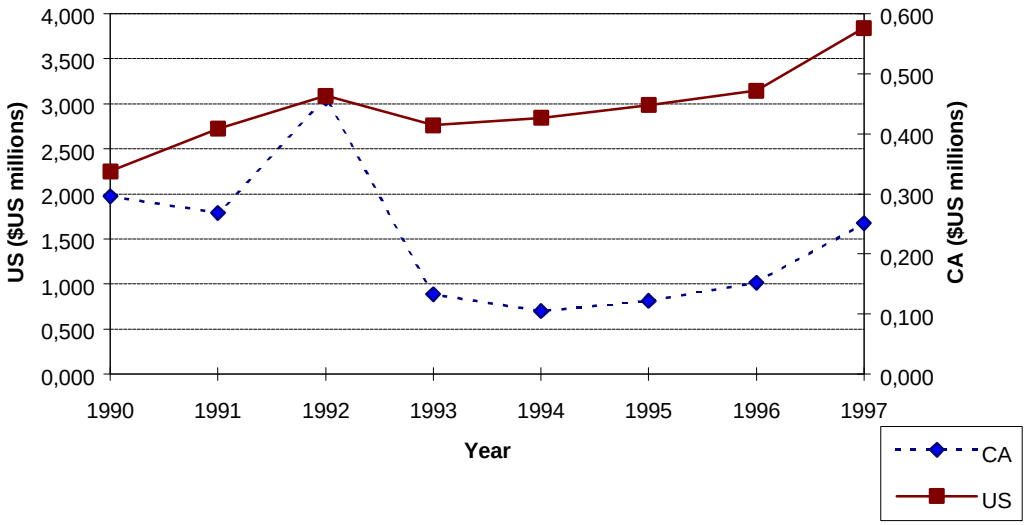
Based on a May 1997 law signed by President Mubarak, investors in Egypt are, in principle, assured automatic approval for projects which do not appear on the "negative list." This list includes investments in the following areas: military and related products, tobacco and tobacco products and investments in the Sinai peninsula (except for exploration of oil, gas and mineral resources). Although approval is supposed to be "automatic," there is a lengthy screening process. In order to qualify for "automatic approval," investors must first be approved by the Egyptian investment authority (GAFI). This board does not meet on a regular basis, thus approval is often subject to lengthy delays. In January 1996, the government announced that investment could begin without prior GAFI approval, but the impact of this change remains to be seen.

Egypt needs to strengthen its IPR laws. On March 5, 1995, President Mubarak signed a decree that amends the copyright law to define computer software as a literary work. This law shows that Egypt is committed to meeting international standards. Egypt is a member of the WIPO, and thus bears a responsibility to protect US intellectual property. However, in 1997, the country was placed back on the "priority watch list" after having been removed in 1994. Much remains to be done. Steps include curbing the use of unauthorized software by government ministries and providing effective enforcement against end-user video, sound recording and book piracy. Nonetheless, the US government continues to work closely with Egypt to improve IPR protection.

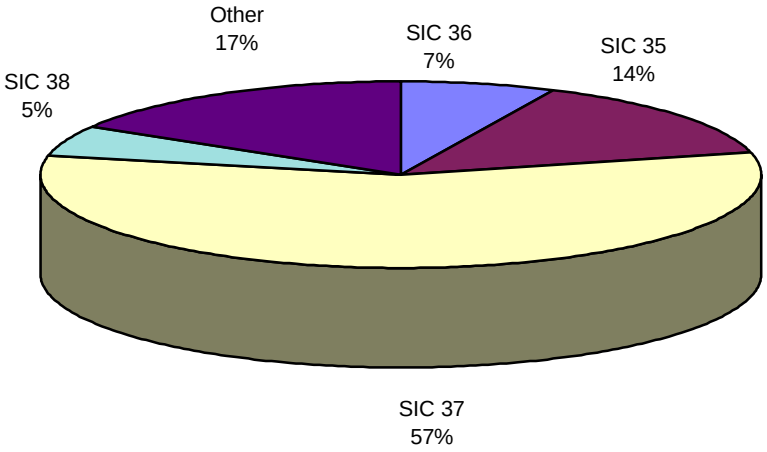
Trade relations between California and Egypt will depend on three factors. First, the ability of Egypt to reform its IPR practices. Second, its continued commitment to economic privatization, and third, further expansion of trade and investment through bilateral discussions. Recent developments in each of these areas have proved promising.

Statistical Appendix

Total US and CA Exports to Egypt: 1990-1997



High-Tech Exports to Egypt as Percentage of Total CA Exports in 1997



HIGH-TECH SECTORS:
SIC 35: Industrial machinery and equipment including computers.

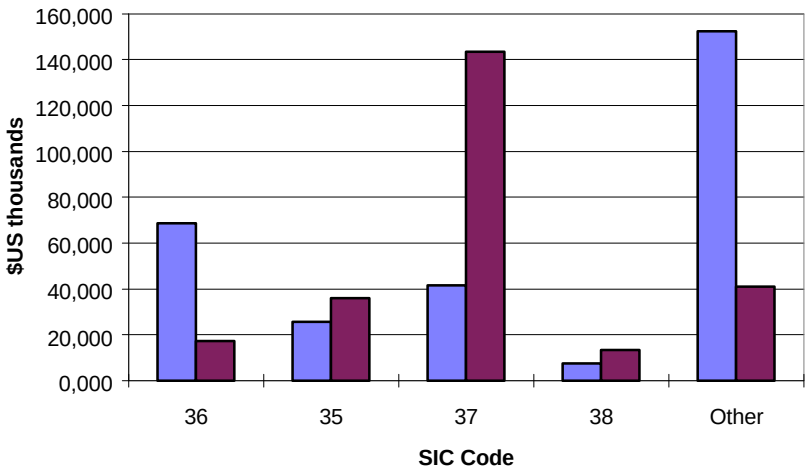
SIC 36: Electronics and electronic equipment not including computers.

SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

CA High-Tech Exports to Egypt by Industry: 1990 vs. 1997



HIGH-TECH SECTORS:
SIC 35: Industrial machinery and equipment including computers.

SIC 36: Electronics and electronic equipment not including computers.

SIC 37: Transportation equipment.

SIC 38: Precision instruments and related products.

Other: Total of all other CA exports.

Part V: Economic Model and Tables

A. Methodology

Considerations

The economic model seeks to rank, in order of potential, the markets that are most compatible with the strengths of California, and thus likely to buy an increasing quantity of California exports, in the short- and medium-term, as well as the likelihood that its businesses would invest in the state. There are innumerable indicators that permit a reasonable guess as to which countries are, or will be, particularly able to import California goods. These indicators include such obvious statistics as population size, medium-term GDP and inflation growth, per capita GNP, and unemployment statistics. But the model also includes statistics such as literacy rates, services as a percentage of GDP, total California import value and tariff levels, as well as many more on the assumption that the technological nature of the majority of California exports suggests that there is a greater demand for the goods in more modern economies (see below for a complete listing of the indicators used).

Assumptions

It is important to note that this model is how we *expect* countries to perform relative to others on the list based on *past performance*. By basing expectation on past performance, we, by definition, make the assumption that future economic activity will remain consistent, whether performance improves or deteriorates. It does not anticipate otherwise unexpected financial or economic crises, and was never intended to do so. Any crisis that arises will be considered under "strategic" factors.

In addition, although political stability in the host country is of great importance for a country's economy, no direct indicator or index has been included for stability. This is because the model assumes that lack of political stability will be demonstrated through poor results in the economic indicators. Indeed, this assumption was validated by the fact that the most politically unstable countries on this year's list, Russia in particular, find themselves at the bottom. Nonetheless, the model focuses on *quantifiable* indicators. If a politically unstable country (a situation that cannot, by itself, be quantified) were found in the upper reaches of the list, we would consider this in the "strategic factors" of the analysis.

Quantitative Analysis

Given the diverse nature of the very different indicators used in the model, it is important to be able to accurately and fairly compare apples and oranges. To this end, data for each country in a given indicator is compared proportionately to the other countries. This is done by taking the mean, or average, datapoint of the 31 countries; subtracting that from the datapoint of an individual country; and then dividing that by the standard deviation (a measure of the dispersion of the indicators) to arrive at a standard score, or a "z-Score":

$$z = \frac{(X\text{-Mean})}{sd}$$

The result is that each country receives a score based on its position relative to the mean of all 31 countries, not on the raw data. Following this procedure, the model can compare total GNP and literacy rates because it looks at a country's position relative to the mean, even when comparing indicators such as $709.6 million and 73 percent; it looks at how far $709.6 million and 73 percent lie from the mean of each of the respective indicators. The reason for using z-Scores is obvious. For example, although Singapore imports 2.5 times more California products than Mainland China, with a population of 3 million, it would never be able to rise above China in the model with its 1.2 billion people, even though California benefits much more from trade with Singapore than with China and its indicators are overall much better.

Because a country's population should be considered more important than its stock market capitalization, each score is subsequently weighted to give it proper importance. For example, since GDP growth is a better indicator for future performance of California exports than private consumption as a percentage of

GDP, the former indicator is given about 3.5 times the weighting than the latter. (For the specific weight of each indicator, please refer to the "weighting" page.)

The model is designed to analyze eight aspects of a country and its economy in order to find its proper position in the ranking. Under each heading are between two and four economic or social indicators that work in conjunction to appropriately score that heading. Below are listed the headings and the indicators that make them up.

	% of Total		% of Total
Market Potential	**20.0**	**California Linkages**	**16.6**
Private consumption	2.0	# of products on DOC list	1.8
Nominal GNP	5.2	Value of CA Imports	6.5
Population	6.4	Country's FDI in CA	5.0
GNP per capita	6.4	Ratio of CA/US Imports	3.3
Economic Health	**15.0**	**Market Risk**	**13.4**
Unemployment	4.5	Foreign Reserves	3.4
GDP growth	6.8	LT Inflation	6.0
Current Account	3.8	ST Inflation	4.0
California Compatibility	**8.4**	**Trade Receptivity**	**15.0**
Services as % of GDP	3.4	Tariffs	5.3
Literacy	5.0	Trade as % of GDP	4.5
		Total Trade	5.3
Market Confidence	**6.6**		
Stock Market Cap.	2.6	**Competitiveness**	**5.0**
FDI as % of GDP	4.0		
		Total	**100%**

Not only does the new model look at potential sites for future foreign offices, but it also includes the markets of our 10 existing foreign offices (in ***bold italics***) as well as the 4 new offices funded in the 1998-99 California State Budget (in *italics*). In total, the new model analyzes 31 foreign markets. The results of the study are listed below.

Foreign Office Location Study
Final Ranking

Rank	Country	Z-score
1	***Japan***	1.35298
2	Singapore	0.98694
3	***Hong Kong***	0.57789
4	***Germany***	0.45187
5	***UK***	0.45183
6	Netherlands	0.4113
7	*Canada*	0.39733
8	***Taiwan***	0.33057
9	France	0.29252
10	*China*	0.22126
11	***South Korea***	0.1264
12	Australia	0.12625
13	Sweden	0.12301
14	Italy	0.05883
15	Malaysia	0.00116
16	Chile	-0.04597
17	***Mexico***	-0.06131
18	Spain	-0.08805
19	***Israel***	-0.09958
20	Thailand	-0.15859
21	***Indonesia***	-0.26923
22	Argentina	-0.28826
23	Czech Repub	-0.29446
24	*Philippines*	-0.33717
25	Poland	-0.36918
26	Hungary	-0.41519
27	***South Africa***	-0.57433
28	India	-0.6362
29	*Brazil*	-0.63736
30	Egypt	-0.65128
31	Russia	-0.80083

Bold Italics = Existing Foreign Offices
Italics = Newly Funded Offices

FOLS Weighting

	Weight	Total points	%
Market Potential	10	10	20.0%
Private consumption	0.1	1	
Nominal GNP	0.26	2.6	
Population	0.32	3.2	
GNP per capita	0.32	3.2	
Economic Health	7.5	7.5	15.0%
Unemployment	0.3	2.25	
GDP growth	0.45	3.375	
Current account	0.25	1.875	
Ca. Compatability	4.2	4.2	8.4%
Services as %	0.4	1.68	
Literacy	0.6	2.52	
Ca Linkages	8.3	8.3	16.6%
# of products DOC	0.11	0.913	
Value of Ca imports	0.39	3.237	
Country's FDI in Ca	0.3	2.49	
Ratio of Ca imports	0.2	1.66	

	Weight	Total points	
Market Risk	6.7	6.7	13.4%
Foreign Reserves	0.25	1.675	
LT inflation	0.45	3.015	
ST inflation	0.3	2.01	
Trade receptivity	7.5	7.5	15.0%
Tariffs	0.35	2.625	
Trade as % of GDP	0.3	2.25	
Total trade	0.35	2.625	
Market Confidence	3.3	3.3	6.6%
Stock market	0.4	1.32	
FDI as % of GDP	0.6	1.98	
Competitiveness	2.5	2.5	5.0%
Total	**50**		100.0%

	Total Points	%
GDP growth	3.375	6.8%
Value of Ca imports	3.237	6.5%
Population	3.2	6.4%
GNP per capita	3.2	6.4%
LT inflation	3.015	6.0%
Total trade	2.625	5.3%
Tariffs	2.625	5.3%
Nominal GNP	2.6	5.2%
Literacy	2.52	5.0%
Competitiveness	2.5	5.0%
Country's FDI in Ca	2.49	5.0%
Unemployment	2.25	4.5%
Trade as % of GDP	2.25	4.5%
ST inflation	2.01	4.0%
FDI as % of GDP	1.98	4.0%
Current account	1.875	3.8%
Services as % GDP	1.68	3.4%
Foreign Reserves	1.675	3.4%
Ratio of Ca imports	1.66	3.3%
Stock market	1.32	2.6%
Private consumption	1	2.0%
# of products DOC	0.913	1.8%
		100.0%

Source Table: Raw and Weighted Z-scores

	Total (z-Score)	**GDP**	0.0675	**GNP**	0.064	**Population**	0.064	**Ca Imports**	0.0647	**FDI in Ca**	0.0498
		Score	Total	Score	Total	Score	Total	Score	Total	Score	Total
Japan	**1.35268**	-0.78972	-0.05331	4.61149	0.295135	0.026916648	0.0017	3.46887575	0.2246	4.696074	0.23386
Singapore	**0.987071**	1.45308	0.098083	-0.51469	-0.03294	-0.44272947	-0.028	0.59473856	0.0385	-0.3557	-0.0177
Hong Kong	**0.578023**	0.16922	0.011422	-0.45356	-0.02903	-0.4300984	-0.028	0.2238971	0.0145	-0.09882	-0.0049
Germany	**0.451956**	-0.8898	-0.06006	1.78835	0.114454	-0.14073209	-0.009	0.21280136	0.0138	0.588609	0.02931
UK	**0.451936**	-0.70593	-0.04765	0.55907	0.03578	-0.22914957	-0.015	0.53130997	0.0344	1.079439	0.05376
Netherlands	**0.411418**	-0.53462	-0.03609	-0.20081	-0.01285	-0.39488451	-0.025	0.04295124	0.0028	1.359084	0.06768
Canada	**0.397424**	-0.55231	-0.03728	-0.03119	-0.002	-0.33938436	-0.022	1.99741038	0.1293	1.037172	0.05165
Taiwan	**0.330704**	0.69058	0.046614	-0.28962	-0.01854	-0.37115341	-0.024	0.91600281	0.0593	-0.30167	-0.015
France	**0.292595**	-0.7711	-0.05205	0.94585	0.060534	-0.23068061	-0.015	-0.1867671	-0.012	0.269971	0.01344
China	**0.221351**	2.02657	0.136794	0.30966	0.019818	4.138903807	0.2649	-0.2311744	-0.015	-0.39528	-0.0197
South Korea	**0.125889**	0.9643	0.06509	-0.11919	-0.00763	-0.28005661	-0.018	0.92943963	0.0602	-0.15076	-0.0075
Australia	**0.124415**	-0.27767	-0.01874	-0.23609	-0.01511	-0.38416724	-0.025	-0.1898154	-0.012	-0.21163	-0.0105
Sweden	**0.123116**	-0.98057	-0.06619	-0.37853	-0.02423	-0.42052941	-0.027	-0.5942367	-0.038	-0.33501	-0.0167
Italy	**0.058914**	-0.87816	-0.05928	0.54731	0.035028	-0.23450821	-0.015	-0.4967649	-0.032	-0.36269	-0.0181
Malaysia	**0.001292**	1.32599	0.089505	-0.51794	-0.03315	-0.37536377	-0.024	-0.058276	-0.004	-0.38606	-0.0192
Chile	**-0.04585**	1.12071	0.075648	-0.53791	-0.03443	-0.39909487	-0.026	-0.6913427	-0.045	-0.41478	-0.0207
Mexico	**-0.06119**	-0.54114	-0.03653	-0.26255	-0.0168	-0.09748025	-0.006	2.15755478	0.1397	-0.32429	-0.0161
Spain	**-0.08803**	-0.60817	-0.04105	-0.03798	-0.00243	-0.30417047	-0.019	-0.622793	-0.04	-0.39811	-0.0198
Israel	**-0.09946**	-0.01	-0.00068	-0.51743	-0.03312	-0.43239496	-0.028	-0.6211103	-0.04	-0.4063	-0.0202
Thailand	**-0.15846**	0.71665	0.048374	-0.42902	-0.02746	-0.22455646	-0.014	-0.2400266	-0.016	-0.41478	-0.0207
Indonesia	**-0.26911**	1.08812	0.073448	-0.39262	-0.02513	0.300207054	0.0192	-0.5559747	-0.036	-0.41478	-0.0207
Argentina	**-0.2882**	0.38428	0.025939	-0.30979	-0.01983	-0.31948086	-0.02	-0.660299	-0.043	-0.41478	-0.0207
Czech Repub	**-0.29433**	-0.40428	-0.02729	-0.5594	-0.0358	-0.41478801	-0.027	-0.7729146	-0.05	-0.41478	-0.0207
Philippines	**-0.33707**	0.18877	0.012742	-0.52453	-0.03357	-0.17900806	-0.011	-0.3011873	-0.019	-0.39097	-0.0195
Poland	**-0.36911**	0.59934	0.040456	-0.48255	-0.03088	-0.30646703	-0.02	-0.7674033	-0.05	-0.41478	-0.0207
Hungary	**-0.4151**	-0.59328	-0.04005	-0.56406	-0.0361	-0.41517077	-0.027	-0.7560393	-0.049	-0.41478	-0.0207
South Africa	**-0.57437**	0.29304	0.01978	-0.47464	-0.03038	-0.31029462	-0.02	-0.7185333	-0.047	-0.40287	-0.0201
India	**-0.63618**	0.56676	0.038256	-0.24623	-0.01576	3.163249402	0.2024	-0.6762476	-0.044	-0.41478	-0.0207
Brazil	**-0.63724**	0.09101	0.006143	0.11044	0.007068	0.163561851	0.0105	-0.4922047	-0.032	-0.36239	-0.018
Egypt	**-0.65118**	0.11056	0.007463	-0.54379	-0.0348	-0.22761853	-0.015	-0.7276538	-0.047	-0.41478	-0.0207
Russia	**-0.80073**	-3.25223	-0.21953	-0.24805	-0.01588	0.111123776	0.0071	-0.714217	-0.046	-0.41478	-0.0207

Source Table: Raw and Weighted Z-scores

Stock	0.0264	**FDI/GDP**	0.0396	**Trade**	0.0525	**Trade/GDP**	0.045	**GNP p.c.**	0.064	**Compet**	0.05	**CA # on DOC**	0.01826
Score	Total	Score	Total	Score	Total	Score	Total	Total	Score	Total	Score	Total	Score
4.45486	0.11761	-1.03469	-0.041	2.30196	0.12085	-0.2562697	-0.0115	1.370086	0.08769	0.97	0.0485	-0.308626296	-0.005635516
-0.3065	-0.0081	3.67582	0.14556	0.09602	0.00504	4.13806425	0.18621	1.826556	0.1169	2.16	0.108	-0.308626296	-0.005635516
0.1783	0.00471	0	0	0.72842	0.03824	3.10125002	0.13956	1.479953	0.09472	1.91	0.0955	-0.308626296	-0.005635516
0.53734	0.01419	-1.08179	-0.0428	3.15131	0.16544	0.18331525	0.00825	1.067952	0.06835	0.15	0.0075	0.648115221	0.011834584
2.26968	0.05992	0.28425	0.01126	1.55537	0.08166	0.04992394	0.00225	0.917539	0.05872	1.29	0.0645	-0.308626296	-0.005635516
0.06376	0.00168	-0.09259	-0.0037	0.59491	0.03123	0.96092592	0.04324	1.033946	0.06617	1.13	0.0565	1.604856739	0.029304684
0.23874	0.0063	-0.51653	-0.0205	0.78902	0.04142	0.2348528	0.01057	1.103267	0.07061	1.27	0.0635	0.648115221	0.011834584
0	0	0	0	-0.0024	-0.0001	0.39856031	0.01794	0.229564	0.01469	1.19	0.0595	0.648115221	0.011834584
0.40789	0.01077	-0.37522	-0.0149	1.41572	0.07433	0.03628165	0.00163	1.12027	0.0717	0.25	0.0125	0.648115221	0.011834584
-0.2154	-0.0057	1.27346	0.05043	0.39289	0.02063	-0.5442737	-0.0245	-1.25756	-0.08048	-0.15	-0.0075	0.648115221	0.011834584
-0.4819	-0.0127	-0.79916	-0.0316	0.19834	0.01041	0.05598719	0.00252	0.017678	0.00113	0.39	0.0195	0.648115221	0.011834584
-0.0443	-0.0012	-0.28101	-0.0111	-0.4692	-0.0246	-0.1365207	-0.0061	0.905768	0.05797	0.79	0.0395	-0.308626296	-0.005635516
-0.1493	-0.0039	0.00162	6.4E-05	-0.3844	-0.0202	0.66989035	0.03015	0.761895	0.04876	0.25	0.0125	1.604856739	0.029304684
-0.1315	-0.0035	-0.89337	-0.0354	0.92517	0.04857	-0.0516353	-0.0023	0.908384	0.05814	-0.69	-0.0345	0.648115221	0.011834584
-0.3982	-0.0105	1.08504	0.04297	-0.3475	-0.0182	0.4122026	0.01855	-0.33416	-0.02139	0.59	0.0295	1.604856739	0.029304684
-0.4332	-0.0114	1.55609	0.06162	-0.8732	-0.0458	-0.3654081	-0.0164	-0.16282	-0.01042	0.57	0.0285	0.648115221	0.011834584
-0.2961	-0.0078	0.04873	0.00193	-0.0524	-0.0028	-0.2562697	-0.0115	-0.69122	-0.04424	-0.23	-0.0115	-0.308626296	-0.005635516
-0.1564	-0.0041	-0.51653	-0.0205	-0.0379	-0.002	-0.094078	-0.0042	0.306732	0.01963	0.02	0.001	0.648115221	0.011834584
-0.4764	-0.0126	-0.2339	-0.0093	-0.8008	-0.042	0.06811367	0.00307	0.674263	0.04315	-0.17	-0.0085	-0.308626296	-0.005635516
-0.5117	-0.0135	-0.42232	-0.0167	-0.5035	-0.0264	-0.1774476	-0.008	-0.81679	-0.05227	0.27	0.0135	-1.265367813	-0.023105616
-0.5027	-0.0133	0.61399	0.02431	-0.6154	-0.0323	-0.445746	-0.0201	-1.26018	-0.08065	-0.19	-0.0095	-1.265367813	-0.023105616
-0.4537	-0.012	-0.32811	-0.013	-0.7893	-0.0414	-0.4396828	-0.0198	-0.44664	-0.02858	-0.48	-0.024	-0.308626296	-0.005635516
-0.5291	-0.014	0.19004	0.00753	-0.8153	-0.0428	0.04992394	0.00225	-0.27138	-0.01737	-0.47	-0.0235	-1.265367813	-0.023105616
-0.4989	-0.0132	-0.2339	-0.0093	-0.7573	-0.0398	-0.3290286	-0.0148	-1.22879	-0.07864	-0.31	-0.0155	1.604856739	0.029304684
-0.5302	-0.014	0.51978	0.02058	-0.7358	-0.0386	-0.2502065	-0.0113	-0.90834	-0.05813	-1.18	-0.059	0.648115221	0.011834584
-0.5255	-0.0139	1.03793	0.0411	-0.8579	-0.045	-0.0243508	-0.0011	-0.81286	-0.05202	-0.85	-0.0425	-1.265367813	-0.023105616
-0.1738	-0.0046	-0.98758	-0.0391	-0.7573	-0.0398	-0.3381235	-0.0152	-0.71869	-0.046	-0.84	-0.042	-0.308626296	-0.005635516
-0.3416	-0.009	-0.70495	-0.0279	-0.7085	-0.0372	-0.5836847	-0.0263	-1.48645	-0.09513	-1.61	-0.0805	-1.265367813	-0.023105616
-0.1359	-0.0036	-0.42232	-0.0167	-0.5518	-0.029	-0.4972836	-0.0224	-0.86387	-0.05529	-1.1	-0.055	-1.265367813	-0.023105616
-0.5161	-0.0136	-0.61074	-0.0242	-0.9597	-0.0504	-0.4275563	-0.0192	-1.31903	-0.08442	-0.52	-0.026	-2.22210933	-0.040575716
-0.3421	-0.009	-0.75206	-0.0298	-0.5294	-0.0278	-0.3517658	-0.0158	-1.14508	-0.07329	-2.02	-0.101	-0.308626296	-0.005635516

Source Table: Raw and Weighted Z-scores

Reserves	0.0335	**LT Inflation**	0.0603	**ST Inflation**	0.0402	**Unemploy**	0.045	**Ca/US Imports**	0.0332
Total	Score	Total	Score	Total	Score	Total	Score	Total	Score
3.953266928	0.132434442	0.31	0.018425	0.85269752	0.034278	0.8188675	0.036849	0.99	0.03276
0.72829151	0.024397766	0.29	0.017233	0.70670582	0.02841	0.8953424	0.04029	1.71	0.056623
0.858615859	0.028763631	0.26	0.015643	0.0223697	0.000899	0.8451558	0.038032	0.93	0.030745
0.781304805	0.026173711	0.29	0.017454	0.77970167	0.031344	-0.309138	-0.01391	-0.14	-0.00473
-0.24361889	-0.008161233	0.29	0.017277	0.5150917	0.020707	0.3552383	0.015986	-0.32	-0.01074
-0.373943239	-0.012527099	0.30	0.017939	0.63370996	0.025475	0.4221539	0.018997	-0.28	-0.00939
-0.457880955	-0.015339012	0.30	0.01816	0.80707512	0.032444	-0.027136	-0.00122	-1.19	-0.03943
0.929300252	0.031131558	0.30	0.017983	0.77057719	0.030977	1.0028853	0.04513	1.57	0.05209
-0.206067806	-0.006903272	0.30	0.017851	0.8161996	0.032811	-0.457308	-0.02058	-0.28	-0.00938
2.25905039	0.075678188	0.22	0.013435	0.43297137	0.017405	-0.137069	-0.00617	1.18	0.039341
-0.380569901	-0.012749092	0.27	0.016173	0.05886762	0.002366	0.9813767	0.044162	1.32	0.043839
-0.539609784	-0.018076928	0.30	0.018248	0.95306682	0.038313	0.0684574	0.003081	1.51	0.050062
-0.709694104	-0.023774752	0.29	0.017498	0.91656889	0.036846	0.1783901	0.008028	0.99	0.032972
0.237918536	0.007970271	0.28	0.016659	0.69758134	0.028043	-0.457308	-0.02058	-0.59	-0.01969
-0.435792083	-0.014599035	0.28	0.016791	0.50596722	0.02034	0.9096815	0.040936	1.51	0.050062
-0.532983123	-0.017854935	0.21	0.012728	-0.0779996	-0.00314	0.4938491	0.022223	-1.10	-0.03668
-0.270125537	-0.009049205	0.18	0.010564	-2.88833994	-0.11611	0.5368663	0.024159	-0.22	-0.00722
0.584713837	0.019587914	0.27	0.016526	0.59721204	0.024008	-1.805178	-0.08123	-0.66	-0.02191
-0.455672068	-0.015265014	0.22	0.013346	-0.53422368	-0.02148	0.3647977	0.016416	-0.84	-0.02795
-0.09783233	-0.003277383	0.28	0.016614	0.66108341	0.026576	0.9240205	0.041581	1.37	0.04555
-0.515312024	-0.017262953	0.25	0.015157	-0.47035231	-0.01891	0.6515786	0.029321	0.26	0.008703
-0.449045406	-0.015043021	0.19	0.011756	0.66108341	0.026576	-1.064327	-0.04789	-1.10	-0.03641
-0.696440781	-0.023330766	0.18	0.010917	-0.6254685	-0.02514	0.7376129	0.033193	-0.34	-0.01118
-0.720738541	-0.024144741	0.24	0.014759	0.05886762	0.002366	-0.000848	-3.8E-05	1.24	0.041005
-0.409285435	-0.013711062	0.24	0.014759	-1.82077559	-0.0732	-0.56724	-0.02553	-1.15	-0.03805
-0.725156315	-0.024292737	0.15	0.008797	-2.41386689	-0.09704	-0.280459	-0.01262	0.29	0.009678
-0.815720693	-0.027326643	0.23	0.014053	-0.34260957	-0.01377	-3.506745	-0.1578	-1.01	-0.03349
-0.373943239	-0.012527099	0.24	0.014671	-0.38823198	-0.01561	-2.07284	-0.09328	-0.58	-0.01913
0.383705096	0.012854121	-4.64	-0.27955	-0.15099545	-0.00607	0.5153577	0.023191	-1.10	-0.03638
-0.623547501	-0.020888841	0.23	0.013744	-0.00500375	-0.0002	-0.051035	-0.0023	-1.42	-0.04712
-0.683187457	-0.02288678	-2.58	-0.15527	-1.72953077	-0.06953	0.0349996	0.001575	-1.08	-0.03598

Source Table: Raw and Weighted Z-scores

Literacy	0.0504	**Services**	0.0336	**P. Consump**	0.02	**Tariffs**	0.0525	**Curr Acct**	0.0375	**Total (z-Score)**	
Total	Score	Total	Score	Total	Score	Total	Score	Total	Score		
0.64	0.032351	-0.30821	-0.01036	-0.15989408	-0.0032	0.83	0.043357	0.4608468	0.017282	**1.35268**	***Japan***
-0.01	-0.00055	1.183117	0.039753	-2.12988846	-0.0426	1.22	0.064187	4.0997254	0.15374	**0.987071**	Singapore
0.08	0.00403	2.087533	0.070141	-0.07128511	-0.00143	1.22	0.064187	-0.120573	-0.00452	**0.578023**	***Hong Kong***
0.64	0.032351	0.451887	0.015183	-0.32417572	-0.00648	0.69	0.036414	-0.08095	-0.00304	**0.451956**	***Germany***
0.64	0.032351	0.413401	0.01389	-0.04675741	-0.00094	0.69	0.036414	0.0231023	0.000866	**0.451936**	***UK***
0.64	0.032351	1.086903	0.03652	-0.26126874	-0.00523	0.69	0.036414	1.3372197	0.050146	**0.411418**	Netherlands
0.48	0.024021	0.60583	0.020356	-0.28509543	-0.0057	1.22	0.064187	-0.101508	-0.00381	**0.397424**	*Canada*
-0.43	-0.02179	0.124758	0.004192	0	0	-0.04	-0.00216	0.5522617	0.02071	**0.330704**	***Taiwan***
0.64	0.032351	1.096524	0.036843	-0.10755362	-0.00215	0.69	0.036414	0.3297596	0.012366	**0.292595**	France
-0.80	-0.04053	-2.76168	-0.09279	-2.56086214	-0.05122	-1.85	-0.09705	0.3113432	0.011675	**0.221351**	*China*
0.56	0.028186	-1.22224	-0.04107	-0.63283606	-0.01266	-0.26	-0.01373	-0.583023	-0.02186	**0.125889**	***South Korea***
0.72	0.036516	0.913717	0.030701	-0.04621082	-0.00092	0.65	0.034099	-0.935947	-0.0351	**0.124415**	Australia
0.64	0.032351	1.086903	0.03652	-0.34520082	-0.0069	0.69	0.036414	0.7733052	0.028999	**0.123116**	Sweden
0.48	0.024021	0.384537	0.01292	-0.29631028	-0.00593	0.69	0.036414	0.6850414	0.025689	**0.058914**	Italy
-0.64	-0.0322	-1.79953	-0.06046	-1.00996329	-0.0202	-0.53	-0.02762	-1.367075	-0.05127	**0.001292**	Malaysia
0.34	0.017358	-0.06767	-0.00227	1.145670424	0.022913	-0.38	-0.0199	-0.248226	-0.00931	**-0.04585**	Chile
-0.13	-0.0068	0.317187	0.010657	0.39894409	0.007979	0.81	0.042585	-0.010102	-0.00038	**-0.06119**	***Mexico***
0.39	0.019857	0.297944	0.010011	0.02313473	0.000463	0.69	0.036414	0.2583249	0.009687	**-0.08803**	Spain
0.31	0.015692	1.423653	0.047835	-0.23286096	-0.00466	1.22	0.064187	-0.903655	-0.03389	**-0.09946**	***Israel***
0.21	0.010694	-0.06767	-0.00227	-0.52257506	-0.01045	-1.28	-0.06696	-1.608724	-0.06033	**-0.15846**	Thailand
-0.61	-0.03095	-1.79953	-0.06046	0.039633104	0.000793	-0.50	-0.02608	-0.685929	-0.02572	**-0.26911**	***Indonesia***
0.41	0.02069	0.413401	0.01389	0	0	-0.44	-0.02299	-0.443036	-0.01661	**-0.2882**	Argentina
0.64	0.032351	-0.64496	-0.02167	-0.4743554	-0.00949	0.36	0.01867	-0.729106	-0.02734	**-0.29433**	Czech Repub
0.28	0.014026	-1.31846	-0.0443	2.017352606	0.040347	-2.74	-0.14411	-0.63716	-0.02389	**-0.33707**	*Philippines*
0.64	0.032351	-0.54874	-0.01844	0.848108632	0.016962	-1.01	-0.05308	0.4745594	0.017796	**-0.36911**	Poland
0.64	0.032351	0.105515	0.003545	0.387922102	0.007758	-0.38	-0.0199	-0.387258	-0.01452	**-0.4151**	Hungary
-0.78	-0.03928	-0.16389	-0.00551	-0.34893026	-0.00698	-0.01	-0.00062	-0.381424	-0.0143	**-0.57437**	***South Africa***
-3.24	-0.16339	-1.70332	-0.05723	0.405334381	0.008107	-2.85	-0.14951	-0.257298	-0.00965	**-0.63618**	India
-0.66	-0.03304	-1.02982	-0.0346	0.849232295	0.016985	-0.95	-0.04999	-0.516151	-0.01936	**-0.63724**	*Brazil*
-3.29	-0.16589	-0.9336	-0.03137	1.932248468	0.038645	-1.28	-0.06696	-0.019671	-0.00074	**-0.65118**	Egypt
0.56	0.028186	-0.38518	-0.01294	1.808442806	0.036169	-0.75	-0.03919	0.711326	0.026675	**-0.80073**	Russia

GDP Growth

Rank	Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	**Average**	z-score
1	*China*				11.8	10.9	9.9	8.2				10.2	2.0
2	Singapore			11.6	8.3	9.1	5.8	7.4				8.4	1.5
3	Malaysia				8.7	8.5	8.1	6.9				8.1	1.3
4	Chile			6	4.2	9.6	7.7	9.6				7.4	1.1
5	***Indonesia***			6.6	7.5	8.1	7.8	6.6				7.3	1.1
6	***South Korea***			7.5	9.3	6.8	7.2	3.9				6.9	1.0
7	Thailand			7.5	8.5	8.6	6.7	-0.4				6.2	0.7
8	***Taiwan***				6.5	6.1	5.7					6.1	0.7
9	Poland			3.8	5.3	7	6.1	6.9				5.8	0.6
10	India			4.5	4.7	7	6.8	5.6				5.7	0.6
11	Argentina			5.7	7.1	-4.4	9.2	8.2				5.2	0.4
12	***South Africa***			5.4	9.3	2.4	3.4	3.9				4.9	0.3
13	*Philippines*			2.1	5.1	5.7	5.2	4.7				4.6	0.2
14	***Hong Kong***			5.6	5.5	3.2	5.5	2.7				4.5	0.2
15	Egypt			3	3.8	4.6	4.9	5.3				4.3	0.1
16	*Brazil*			4.6	9.2	0.2	5.4	1.9				4.3	0.1
17	***Israel***				2.9	6.8	4.6	1.5				4.0	0.0
18	Australia	0.6	2.5	4	5	3.1	3.1	3.6				3.1	-0.3
19	Czech Repub			-3	4.8	5	4.7	2.2				2.7	-0.4
20	Netherlands			0.3	3	1.6	3	3.8				2.3	-0.5
21	***Mexico***			-0.1	4	-6.6	7.6	6.7				2.3	-0.5
22	*Canada*	-1	1.3	3	5.6	0.6	2.3	4.2				2.3	-0.6
23	Hungary			-1	2	1.5	3	5.3				2.2	-0.6
24	Spain	3.7	-0.2	-0.3	2.8	2.6	2.6	3.6				2.1	-0.6
25	***UK***	-1.3	-0.1	2.6	3.9	2	2.6	3				1.8	-0.7
26	France	1.8	0.8	-0.6	3.6	0.7	2	3				1.6	-0.8
27	***Japan***	4.7	0.2	0	0.9	2.2	3.1	-0.2				1.6	-0.8
28	Italy	1.1	-0.3	0.3	2.7	2.3	0.1	2.8				1.3	-0.9
29	***Germany***		-0.2	-0.9	3.3	1	1.9	2.4				1.3	-0.9
30	Sweden	-0.5	-3.6	0.5	3.6	1.7	1.8	3.3				1.0	-1.0
31	Russia			-8.7	-12.7	-4.1	-4.9	0.4				-6.0	-3.3

Mean:	4.0
sd:	3.06888

To adjust:

Nominal GNP

Rank	Country	GNP 1996 (in $ billions)	z-score		
1	***Japan***	5,149.2	4.61149	mean	600.7
2	***Germany***	2,364.6	1.78835	sd	986.3
3	France	1,533.6	0.94585		
4	***UK***	1,152.1	0.55907		
5	Italy	1,140.5	0.54731		
6	*China*	906.1	0.30966		
7	*Brazil*	709.6	0.11044		
8	*Canada*	569.9	-0.03119		
9	Spain	563.2	-0.03798		
10	***South Korea***	483.1	-0.11919		
11	Netherlands	402.6	-0.20081		
12	Australia	367.8	-0.23609		
13	India	357.8	-0.24623		
14	Russia	356.0	-0.24805		
15	***Mexico***	341.7	-0.26255		
16	***Taiwan***	315.0	-0.28962		
17	Argentina	295.1	-0.30979		
18	Sweden	227.3	-0.37853		
19	***Indonesia***	213.4	-0.39262		
20	Thailand	177.5	-0.42902		
21	***Hong Kong***	153.3	-0.45356		
22	***South Africa***	132.5	-0.47464		
23	Poland	124.7	-0.48255		
24	Singapore	93.0	-0.51469		
25	***Israel***	90.3	-0.51743		
26	Malaysia	89.8	-0.51794		
27	*Philippines*	83.3	-0.52453		
28	Chile	70.1	-0.53791		
29	Egypt	64.3	-0.54379		
30	Czech Repub	48.9	-0.5594		
31	Hungary	44.3	-0.56406		

Source: 1998 World Bank Atlas

Population

Rank	Country	Population (in millions)	z-score		
1	*China*	1200	4.1	Mean	118.6677419
2	India	945.1	3.2	sd	261.2605435
3	***Indonesia***	197.1	0.3		
4	*Brazil*	161.4	0.2		
5	Russia	147.7	0.1		
6	***Japan***	125.7	0.0		
7	***Mexico***	93.2	-0.1		
8	***Germany***	81.9	-0.1		
9	*Philippines*	71.9	-0.2		
10	Thailand	60	-0.2		
11	Egypt	59.2	-0.2		
12	***UK***	58.8	-0.2		
13	France	58.4	-0.2		
14	Italy	57.4	-0.2		
15	***South Korea***	45.5	-0.3		
16	Spain	39.2	-0.3		
17	Poland	38.6	-0.3		
18	***South Africa***	37.6	-0.3		
19	Argentina	35.2	-0.3		
20	*Canada*	30	-0.3		
21	***Taiwan***	21.7	-0.4		
22	Malaysia	20.6	-0.4		
23	Australia	18.3	-0.4		
24	Netherlands	15.5	-0.4		
25	Chile	14.4	-0.4		
26	Czech	10.3	-0.4		
27	Hungary	10.2	-0.4		
28	Sweden	8.8	-0.4		
29	***Hong Kong***	6.3	-0.4		
30	***Israel***	5.7	-0.4		
31	Singapore	3	-0.4		

Source: 1998 World Bank Atlas

Stock Market Capitalization

Rank	Country	Stock Market Capitalization (1997) (in $ billions)	z-score		
1	***Japan***	3088.9	4.5	Mean	339.35
2	***UK***	1740.2	2.3	sd	617.202
3	***Germany***	671	0.5		
4	France	591.1	0.4		
5	*Canada*	486.7	0.2		
6	***Hong Kong***	449.4	0.2		
7	Netherlands	378.7	0.1		
8	Australia	312	0.0		
9	Italy	258.2	-0.1		
10	*Brazil*	255.5	-0.1		
11	Sweden	247.2	-0.1		
12	Spain	242.8	-0.2		
13	***South Africa***	232.1	-0.2		
14	*China*	206.4	-0.2		
15	***Mexico***	156.6	-0.3		
16	Singapore	150.2	-0.3		
17	India	128.5	-0.3		
18	Russia	128.2	-0.3		
19	Malaysia	93.6	-0.4		
20	Chile	72	-0.4		
21	Argentina	59.3	-0.5		
22	***Israel***	45.3	-0.5		
23	***South Korea***	41.9	-0.5		
24	*Philippines*	31.4	-0.5		
25	***Indonesia***	29.1	-0.5		
26	Thailand	23.5	-0.5		
27	Egypt	20.8	-0.5		
28	Hungary	15	-0.5		
29	Czech	12.8	-0.5		
30	Poland	12.1	-0.5		
31	***Taiwan***				

Source: The Economist

California Imports

Rank	Country	CA Imports (1997) (in $ millions)	z-score		
1	***Japan***	17459.8	3.5	Mean	3235.07
2	***Mexico***	12082.5	2.2	sd	4100.67
3	*Canada*	11425.8	2.0		
4	***South Korea***	7046.4	0.9		
5	***Taiwan***	6991.3	0.9		
6	Singapore	5673.9	0.6		
7	***UK***	5413.8	0.5		
8	***Hong Kong***	4153.2	0.2		
9	***Germany***	4107.7	0.2		
10	Netherlands	3411.2	0.0		
11	Malaysia	2996.1	-0.1		
12	France	2469.2	-0.2		
13	Australia	2456.7	-0.2		
14	*China*	2287.1	-0.2		
15	Thailand	2250.8	-0.2		
16	*Philippines*	2000	-0.3		
17	*Brazil*	1216.7	-0.5		
18	Italy	1198	-0.5		
19	***Indonesia***	955.2	-0.6		
20	Sweden	798.3	-0.6		
21	***Israel***	688.1	-0.6		
22	Spain	681.2	-0.6		
23	Argentina	527.4	-0.7		
24	India	462	-0.7		
25	Chile	400.1	-0.7		
26	Russia	306.3	-0.7		
27	***South Africa***	288.6	-0.7		
28	Egypt	251.2	-0.7		
29	Hungary	134.8	-0.8		
30	Poland	88.2	-0.8		
31	Czech	65.6	-0.8		

Source: MISER Series 1 Data (US DOC)

Foreign Direct Investment in California

Rank	Country	FDI in CA (in $ millions)	z-score		
1	***Japan***	34341	4.7	mean	2787.0
2	Netherlands	11919	1.4	sd	6719.2
3	***UK***	10040	1.1		
4	*Canada*	9756	1.0		
5	***Germany***	6742	0.6		
6	France	4601	0.3		
7	***Hong Kong***	2123	-0.1		
8	***South Korea***	1774	-0.2		
9	Australia	1365	-0.2		
10	***Taiwan***	760	-0.3		
11	***Mexico***	608	-0.3		
12	Sweden	536	-0.3		
13	Singapore	397	-0.4		
14	*Brazil*	352	-0.4		
15	Italy	350	-0.4		
16	Malaysia	193	-0.4		
17	*Philippines*	160	-0.4		
18	*China*	131	-0.4		
19	Spain	112	-0.4		
20	***South Africa***	80	-0.4		
21	***Israel***	57	-0.4		
22	Thailand	0	-0.4		
23	***Indonesia***	0	-0.4		
24	Argentina	0	-0.4		
25	India	0	-0.4		
26	Chile	0	-0.4		
27	Russia	0	-0.4		
28	Egypt	0	-0.4		
29	Hungary	0	-0.4		
30	Poland	0	-0.4		
31	Czech	0	-0.4		

*Australia and South Africa are estimates

Source: Foreign Direct Investment in California, 1998

Total Trade

Rank	Country	1996 Exports	1996 Imports	1996 Total Trade ($ billions)	1997 Exports	1997 Imports	1997 Total Trade ($ billions)	**Total Trade 1996-1997**	z-score
1	***Germany***	444.4	507.5	951.9	511.7	441.5	953.2	952.55	3.15131
2	***Japan***	349.2	410.9	760.1	421	338.8	759.8	759.95	2.30196
3	***UK***	283.9	259.3	543.2	281.6	308.2	589.8	566.5	1.55537
4	France	275	255.5	530.5	289.6	268.4	558	544.25	1.41572
5	Italy	250.8	207	457.8	238.2	208.1	446.3	452.05	0.92517
6	*Canada*	201.6	171	372.6	214.4	200.9	415.3	393.95	0.78902
7	***Hong Kong***	217.2	197.2	414.4	188.2	213.3	401.5	407.95	0.72842
8	Netherlands	177.4	160.9	338.3	193.9	177.2	371.1	354.7	0.59491
9	*China*	151.1	138.8	289.9	182.7	142.4	325.1	307.5	0.39289
10	***South Korea***	129.7	150.3	280	136.2	144.6	280.8	280.4	0.19834
11	Singapore	125.1	131.5	256.6	125	132.5	257.5	257.05	0.09602
12	***Taiwan***	116	102.4	218.4	121.9	113.2	235.1	226.75	-0.00236
13	Spain	101	121.3	222.3	104.3	122.7	227	224.65	-0.03793
14	***Mexico***	95	88.5	183.5	110.4	113.3	223.7	203.6	-0.05242
15	Malaysia	78.2	77.9	156.1	77.5	79	156.5	156.3	-0.34755
16	Sweden	79.9	64.4	144.3	82.7	65.4	148.1	146.2	-0.38444
17	Australia	59.5	59.7	119.2	62.9	65.9	128.8	124	-0.4692
18	Thailand	57.3	72.4	129.7	57.4	63.6	121	125.35	-0.50345
19	Russia	88.3	59.8	148.1	66.3	48.8	115.1	131.6	-0.52936
20	*Brazil*	47.7	53.3	101	53	57	110	105.5	-0.55176
21	***Indonesia***	49.8	42.9	92.7	53.5	42	95.5	94.1	-0.61544
22	India	30.5	34.5	65	33.9	40.4	74.3	69.65	-0.70854
23	Poland	23.4	29	52.4	25.8	42.3	68.1	60.25	-0.73577
24	*Philippines*	20.5	34.7	55.2	25.2	38	63.2	59.2	-0.75729
25	***South Africa***	29.2	26.9	56.1	30.3	32.9	63.2	59.65	-0.75729
26	Argentina	23.8	23.7	47.5	25.5	30.4	55.9	51.7	-0.78935
27	***Israel***	29.9	20.5	50.4	22.5	30.8	53.3	51.85	-0.80077
28	Czech	21.9	27.7	49.6	22.8	27.2	50	49.8	-0.81526
29	Hungary	14.2	16.8	31	19.1	21.2	40.3	35.65	-0.85786
30	Chile	15.4	16.5	31.9	16.9	19.9	36.8	34.35	-0.87323
31	Egypt	4.6	13.8	18.4	3.9	13.2	17.1	17.75	-0.95975

Mean	235.637
sd	227.703

Trade as % of GDP

Rank	Country	Trade % of GDP (ppp) 1996	z-score		
1	Singapore	316	4.1		
2	***Hong Kong***	247.6	3.1	Mean	43.0065
3	Netherlands	106.4	1.0	sd	65.9713
4	Sweden	87.2	0.7		
5	Malaysia	70.2	0.4		
6	***Taiwan***	69.3	0.4		
7	*Canada*	58.5	0.2		
8	***Germany***	55.1	0.2		
9	***Israel***	47.5	0.1		
10	***South Korea***	46.7	0.1		
11	Czech	46.3	0.0		
12	***UK***	46.3	0.0		
13	France	45.4	0.0		
14	Hungary	41.4	0.0		
15	Italy	39.6	-0.1		
16	Spain	36.8	-0.1		
17	Australia	34	-0.1		
18	Thailand	31.3	-0.2		
19	Poland	26.5	-0.3		
20	***Japan***	26.1	-0.3		
21	***Mexico***	26.1	-0.3		
22	*Philippines*	21.3	-0.3		
23	***South Africa***	20.7	-0.3		
24	Russia	19.8	-0.4		
25	Chile	18.9	-0.4		
26	Egypt	14.8	-0.4		
27	Argentina	14	-0.4		
28	***Indonesia***	13.6	-0.4		
29	*Brazil*	10.2	-0.5		
30	*China*	7.1	-0.5		
31	India	4.5	-0.6		

Source: 1998 World Bank Atlas

GNP per Capita

Rank	Country	GNP per Capita (ppp) 1996	z-score		
1	Singapore	26910	1.8	Mean	12944.8
2	***Hong Kong***	24260	1.5	sd	7645.62
3	***Japan***	23420	1.4		
4	France	21510	1.1		
5	*Canada*	21380	1.1		
6	***Germany***	21110	1.1		
7	Netherlands	20850	1.0		
8	***UK***	19960	0.9		
9	Italy	19890	0.9		
10	Australia	19870	0.9		
11	Sweden	18770	0.8		
12	***Israel***	18100	0.7		
13	Spain	15290	0.3		
14	***Taiwan***	14700	0.2		
15	***South Korea***	13080	0.0		
16	Chile	11700	-0.2		
17	Czech	10870	-0.3		
18	Malaysia	10390	-0.3		
19	Argentina	9530	-0.4		
20	***Mexico***	7660	-0.7		
21	***South Africa***	7450	-0.7		
22	Hungary	6730	-0.8		
23	Thailand	6700	-0.8		
24	*Brazil*	6340	-0.9		
25	Poland	6000	-0.9		
26	Russia	4190	-1.1		
27	*Philippines*	3550	-1.2		
28	*China*	3330	-1.3		
29	***Indonesia***	3310	-1.3		
30	Egypt	2860	-1.3		
31	India	1580	-1.5		

Source: 1998 World Bank Atlas

Competitiveness Index Ranking
(World Economic Forum)

Rank	Country	Competitiveness Ranking 1996	1997	1998	Compet. Index
1	Singapore	1	1	1	2.16
2	***Hong Kong***	2	2	2	1.91
3	***UK***	15	7	4	1.29
4	*Canada*	8	4	5	1.27
5	***Taiwan***	9	8	6	1.19
6	Netherlands	17	12	7	1.13
7	***Japan***	13	14	12	0.97
8	Australia	12	17	14	0.79
9	Malaysia	10	9	17	0.59
10	Chile	18	13	18	0.57
11	***South Korea***	20	21	19	0.39
12	Thailand	14	18	21	0.27
13	France	23	23	22	0.25
14	Sweden	21	22	23	0.25
15	***Germany***	22	25	24	0.15
16	Spain	32	26	25	0.02
17	*China*	36	29	28	-0.15
18	***Israel***	24	24	29	-0.17
19	***Indonesia***	30	15	31	-0.19
20	***Mexico***	33	33	32	-0.23
21	*Philippines*	31	34	33	-0.31
22	Czech	35	32	35	-0.47
23	Argentina	37	37	36	-0.48
24	Egypt	29	28	38	-0.52
25	Italy	41	39	41	-0.69
26	***South Africa***	43	44	42	-0.84
27	Hungary	46	46	43	-0.85
28	*Brazil*	48	42	46	-1.1
29	Poland	44	50	49	-1.18
30	India	45	45	50	-1.61
31	Russia	49	53	52	-2.02

Source: World Economic Forum

California Products on the US DOC List

Rank	Country	# CA products on USDOC list	z-score		
1	Malaysia	9	1.6049	Mean	7.32258
2	Netherlands	9	1.6049	sd	1.04521
3	*Philippines*	9	1.6049		
4	Sweden	9	1.6049		
5	*Canada*	8	0.6481		
6	Chile	8	0.6481		
7	*China*	8	0.6481		
8	France	8	0.6481		
9	***Germany***	8	0.6481		
10	Italy	8	0.6481		
11	Poland	8	0.6481		
12	***South Korea***	8	0.6481		
13	Spain	8	0.6481		
14	***Taiwan***	8	0.6481		
15	Argentina	7	-0.309		
16	Australia	7	-0.309		
17	***Hong Kong***	7	-0.309		
18	***Israel***	7	-0.309		
19	***Japan***	7	-0.309		
20	***Mexico***	7	-0.309		
21	Russia	7	-0.309		
22	Singapore	7	-0.309		
23	***South Africa***	7	-0.309		
24	***UK***	7	-0.309		
25	*Brazil*	6	-1.265		
26	Czech	6	-1.265		
27	Hungary	6	-1.265		
28	India	6	-1.265		
29	***Indonesia***	6	-1.265		
30	Thailand	6	-1.265		
31	Egypt	5	-2.222		

Source: US Department of Commerce

Foreign Reserves

Rank	Country	Foreign Reserves ($ billions) 1997	z-score		
1	***Japan***	220.4	4.0	Mean	41.429
2	*China*	143.7	2.3	sd	45.2717
3	***Taiwan***	83.5	0.9		
4	***Hong Kong***	80.3	0.9		
5	***Germany***	76.8	0.8		
6	Singapore	74.4	0.7		
7	Spain	67.9	0.6		
8	*Brazil*	58.8	0.4		
9	Italy	52.2	0.2		
10	Thailand	37	-0.1		
11	France	32.1	-0.2		
12	***UK***	30.4	-0.2		
13	***Mexico***	29.2	-0.3		
14	India	24.5	-0.4		
15	Netherlands	24.5	-0.4		
16	***South Korea***	24.2	-0.4		
17	Poland	22.9	-0.4		
18	Malaysia	21.7	-0.4		
19	Argentina	21.1	-0.4		
20	***Israel***	20.8	-0.5		
21	*Canada*	20.7	-0.5		
22	***Indonesia***	18.1	-0.5		
23	Chile	17.3	-0.5		
24	Australia	17	-0.5		
25	Egypt	13.2	-0.6		
26	Russia	10.5	-0.7		
27	Czech	9.9	-0.7		
28	Sweden	9.3	-0.7		
29	*Philippines*	8.8	-0.7		
30	Hungary	8.6	-0.7		
31	***South Africa***	4.5	-0.8		

Source: The Economist

Unemployment

Rank		Year 1 1995	Year 2 1996	Year 3 1997	**Average**	z-Score		
1	***Taiwan***	1.5	2.6		**2.1**	1.0	Mean	9.0
2	***South Korea***	2	2	2.6	**2.2**	1.0	sd	6.97
3	Thailand	2.6	2.6		**2.6**	0.9		
4	Malaysia	2.8	2.6		**2.7**	0.9		
5	Singapore	2.7	2.9		**2.8**	0.9		
6	***Hong Kong***	3.5	2.8		**3.2**	0.8		
7	***Japan***	3.2	3.4	3.4	**3.3**	0.8		
8	Czech Repub		3.5	4.3	**3.9**	0.7		
9	***Indonesia***	4.4	4.6		**4.5**	0.7		
10	***Mexico***	6.3	5.5	4.1	**5.3**	0.5		
11	*Brazil*		5.2	5.7	**5.5**	0.5		
12	Chile		5.7	5.5	**5.6**	0.5		
13	Netherlands	7	6.4	4.9	**6.1**	0.4		
14	***Israel***		6.5		**6.5**	0.4		
15	***UK***	8	6.7	5	**6.6**	0.4		
16	Sweden	7.8	8.7	6.9	**7.8**	0.2		
17	Australia	8.5	8.6	8.6	**8.6**	0.1		
18	Russia		8.8		**8.8**	0.0		
19	*Philippines*	9.5	8.6		**9.1**	0.0		
20	*Canada*	9.4	9.7	8.6	**9.2**	0.0		
21	Egypt		9.4		**9.4**	-0.1		
22	*China**		10		**10.0**	-0.1		
23	Hungary	11	11		**11.0**	-0.3		
24	***Germany***	10.8	10.9	11.9	**11.2**	-0.3		
25	France	12	12.5	12.2	**12.2**	-0.5		
26	Italy	12.6	12.1	12	**12.2**	-0.5		
27	Poland	14.9	13.6	10.5	**13.0**	-0.6		
28	Argentina	15	17.1	17.3	**16.5**	-1.1		
29	Spain	22.7	21.9	20.3	**21.6**	-1.8		
30	India	23	24		**23.5**	-2.1		
31	***South Africa***	33	34		**33.5**	-3.5		

* China's official rates are much lower.
Rates given here are third-party estimates

Source: World Development Indicators, CIA World Factbook, The Economist

Inflation

Long-term Inflation (1990-96)

Rank	Country	Average	z-Score		
1	***Japan***	0.7	0.31	mean	42.4
2	Australia	1.1	0.30	sd	137
3	*Canada*	1.3	0.30		
4	***Taiwan***	1.7	0.30		
5	Netherlands	1.8	0.30		
6	France	2	0.30		
7	Sweden	2.8	0.29		
8	***Germany***	2.9	0.29		
9	***UK***	3.3	0.29		
10	Singapore	3.4	0.29		
11	Malaysia	4.4	0.28		
12	Italy	4.7	0.28		
13	Thailand	4.8	0.28		
14	Spain	5	0.27		
15	***South Korea***	5.8	0.27		
16	***Hong Kong***	7	0.26		
17	***Indonesia***	8.1	0.25		
18	*Philippines*	9	0.24		
19	India	9.2	0.24		
20	***South Africa***	10.6	0.23		
21	Egypt	11.3	0.23		
22	*China*	12	0.22		
23	***Israel***	12.2	0.22		
24	Chile	13.6	0.21		
25	Argentina	15.8	0.19		
26	Czech Repub	17.7	0.18		
27	***Mexico***	18.5	0.18		
28	Hungary	22.5	0.15		
29	Poland	32.4	0.07		
30	Russia	394	-2.58		
31	*Brazil*	675.4	-4.64		

Short-term Inflation (1996-97)

Rank	Country	1996	1997	Average	z-Score		
1	Australia	1.5	-0.2	0.7	1.0	mean	5.9
2	Sweden	-0.2	1.9	0.9	0.9	sd	5.48
3	***Japan***	0.6	1.8	1.2	0.9		
4	France	1.7	1.1	1.4	0.8		
5	*Canada*	2.2	0.7	1.5	0.8		
6	***Germany***	1.4	1.8	1.6	0.8		
7	***Taiwan***	3.1	0.2	1.7	0.8		
8	Singapore	2	2	2.0	0.7		
9	Italy	2.6	1.5	2.1	0.7		
10	Thailand	4.3	0.2	2.3	0.7		
11	Argentina	0.2	4.3	2.3	0.7		
12	Netherlands	2.5	2.3	2.4	0.6		
13	Spain	3.2	2	2.6	0.6		
14	***UK***	2.5	3.6	3.1	0.5		
15	Malaysia	3.3	2.9	3.1	0.5		
16	*China*	6.6	0.4	3.5	0.4		
17	***South Korea***	4.5	6.6	5.6	0.1		
18	*Philippines*	5	6.1	5.6	0.1		
19	***Hong Kong***	6.7	4.8	5.8	0.0		
20	Egypt	7.2	4.6	5.9	0.0		
21	Chile	6.6	6	6.3	-0.1		
22	*Brazil*	9.1	4.3	6.7	-0.2		
23	***South Africa***	9.4	6.1	7.8	-0.3		
24	India	11.1	4.9	8.0	-0.4		
25	***Indonesia***	5.3	11.6	8.5	-0.5		
26	***Israel***	10.6	7	8.8	-0.5		
27	Czech Repub	8.6	10	9.3	-0.6		
28	Russia	19.7	11	15.4	-1.7		
29	Poland	18.5	13.2	15.9	-1.8		
30	Hungary	19.8	18.4	19.1	-2.4		
31	***Mexico***	27.7	15.7	21.7	-2.9		

Source: The Economist (ST), World Bank Atlas (LT)

California Imports as a Percentage of Total US Imports

Rank	Country	Value of California Imports ($ millions) 1996	1997	Average	Value of Total US Imports ($ millions) 1996	1997	Average	% of Imports from California	z-Score		
1	Singapore	5925	5673.9	5799.5	16685.5	17727.4	17206.45	33.7%	1.71	mean:	18.5%
2	***Taiwan***	5613.1	6991.3	6302.2	18412.8	20387.9	19400.35	32.5%	1.57	sd:	0.08937
3	Malaysia	3183.8	2996.1	3090.0	8521.2	10827.8	9674.5	31.9%	1.51		
4	Thailand	2225.3	2250.8	2238.1	7211.4	7357.2	7284.3	30.7%	1.37		
5	***South Korea***	8584.9	7046.4	7815.7	26583.1	25066.8	25824.95	30.3%	1.32		
6	*Philippines*	1998	2000	1999.0	6124.7	7427.4	6776.05	29.5%	1.24		
7	*China*	4913.2	2287.1	3600.2	11977.9	12805.4	12391.65	29.1%	1.18		
8	Sweden	1045.5	798.3	921.9	3428.6	3315.7	3372.15	27.3%	0.99		
9	***Japan***	18881.4	17459.8	18170.6	67535.5	65672.6	66604.05	27.3%	0.99		
10	***Hong Kong***	3620	4153.2	3886.6	13955.8	15114.8	14535.3	26.7%	0.93		
11	Hungary	37.2	134.8	86.0	330.6	485.8	408.2	21.1%	0.29		
12	***Indonesia***	812.6	955.2	883.9	3965	4531.7	4248.35	20.8%	0.26		
13	Australia	2076.1	2456.7	2266.4	11991.7	12040.8	12016.25	18.9%	0.04		
14	***Germany***	4132.9	4107.7	4120.3	23473.9	24466.9	23970.4	17.2%	-0.14		
15	***Mexico***	9086.8	12082.4	10584.6	56760.8	71378.3	64069.55	16.5%	-0.22		
16	France	2377.2	2469.2	2423.2	14427.8	15981.6	15204.7	15.9%	-0.28		
17	Netherlands	2394.8	3411.2	2903.0	16614.5	19821.6	18218.05	15.9%	-0.28		
18	***UK***	5073.6	5413.7	5243.7	30916	36435.1	33675.55	15.6%	-0.32		
19	Czech Republic	89.2	65.6	77.4	410.3	591.5	500.9	15.5%	-0.34		
20	India	461.1	462	461.6	3318.1	3615.6	3466.85	13.3%	-0.58		
21	Italy	1139.5	1198	1168.8	8784.9	8973.2	8879.05	13.2%	-0.59		
22	Spain	704.9	681.1	693.0	5486.1	5543.8	5514.95	12.6%	-0.66		
23	***Israel***	624.8	688.1	656.5	6009	5992.5	6000.75	10.9%	-0.84		
24	***South Africa***	288.3	288.6	288.5	3106.1	2999.9	3053	9.4%	-1.01		
25	Russia	275.6	306.3	291.0	3340.2	3288.7	3314.45	8.8%	-1.08		
26	*Brazil*	1263.9	1216.7	1240.3	12699.2	15912.3	14305.75	8.7%	-1.10		
27	Argentina	366.7	527.4	447.1	4515.8	5807.8	5161.8	8.7%	-1.10		
28	Chile	330.6	400.1	365.4	4131.5	4375.1	4253.3	8.6%	-1.10		
29	Poland	87.6	88.2	87.9	967.8	1170.6	1069.2	8.2%	-1.15		
30	*Canada*	10766.6	11425.8	11096.2	132583.9	150124.4	141354.15	7.8%	-1.19		
31	Egypt	152.5	251.2	201.9	3146.1	3840	3493.05	5.8%	-1.42		

Adult Literacy Rate

Rank	Country	Literacy	z-Score		
1	Australia	100	0.72	mean:	91.2
2	Czech Repub	99	0.64	SD:	12.1
3	France	99	0.64		
4	***Germany***	99	0.64		
5	Hungary	99	0.64		
6	***Japan***	99	0.64		
7	Netherlands	99	0.64		
8	Poland	99	0.64		
9	Sweden	99	0.64		
10	***UK***	99	0.64		
11	Russia	98	0.56		
12	***South Korea***	98	0.56		
13	*Canada*	97	0.48		
14	Italy	97	0.48		
15	Argentina	96.2	0.41		
16	Spain	96	0.39		
17	Chile	95.4	0.34		
18	***Israel***	95	0.31		
19	*Philippines*	94.6	0.28		
20	Thailand	93.8	0.21		
21	***Hong Kong***	92.2	0.08		
22	Singapore	91.1	-0.01		
23	***Mexico***	89.6	-0.13		
24	***Taiwan***	86	-0.43		
25	***Indonesia***	83.8	-0.61		
26	Malaysia	83.5	-0.64		
27	*Brazil*	83.3	-0.66		
28	***South Africa***	81.8	-0.78		
29	*China*	81.5	-0.80		
30	India	52	-3.24		
31	Egypt	51.4	-3.29		

Source: CIA World Factbook

Services as a % of GDP

Rank	Country	Rate	z-Score		
1	***Hong Kong***	81.4	2.1	mean:	59.7
2	***Israel***	74.5	1.4	sd:	10.4
3	Singapore	72	1.2		
4	France	71.1	1.1		
5	Netherlands	71	1.1		
6	Sweden	71	1.1		
7	Australia	69.2	0.9		
8	*Canada*	66	0.6		
9	***Germany***	64.4	0.5		
10	Argentina	64	0.4		
11	***UK***	64	0.4		
12	Italy	63.7	0.4		
13	***Mexico***	63	0.3		
14	Spain	62.8	0.3		
15	***Taiwan***	61	0.1		
16	Hungary	60.8	0.1		
17	Chile	59	-0.1		
18	Thailand	59	-0.1		
19	***South Africa***	58	-0.2		
20	***Japan***	56.5	-0.3		
21	Russia	55.7	-0.4		
22	Poland	54	-0.5		
23	Czech Repub	53	-0.6		
24	Egypt	50	-0.9		
25	*Brazil*	49	-1.0		
26	***South Korea***	47	-1.2		
27	*Philippines*	46	-1.3		
28	India	42	-1.7		
29	***Indonesia***	41	-1.8		
30	Malaysia	41	-1.8		
31	*China*	31	-2.8		

Source: CIA World Factbook

Private Consumption as % of GDP

Rank	Country	Private Consumption	GNP 1996 (in $billions)	Consumption/ GNP	z-score		
1	*Philippines*	67	83.3	80.4%	2.0	Mean	0.61
2	Egypt	51.2	64.3	79.6%	1.9	sd	0.09
3	Russia	279.3	356	78.5%	1.8		
4	Chile	50.6	70.1	72.2%	1.1		
5	*Brazil*	492.3	709.6	69.4%	0.8		
6	Poland	86.5	124.7	69.4%	0.8		
7	India	233.2	357.8	65.2%	0.4		
8	***Mexico***	222.5	341.7	65.1%	0.4		
9	Hungary	28.8	44.3	65.0%	0.4		
10	***Indonesia***	131.7	213.4	61.7%	0.0		
11	Spain	346.7	563.2	61.6%	0.0		
12	Australia	224	367.8	60.9%	0.0		
13	***UK***	701.6	1152.1	60.9%	0.0		
14	***Hong Kong***	93	153.3	60.7%	-0.1		
15	France	925.1	1533.6	60.3%	-0.1		
16	***Japan***	3080.6	5149.2	59.8%	-0.2		
17	***Israel***	53.4	90.3	59.1%	-0.2		
18	Netherlands	237	402.6	58.9%	-0.3		
19	*Canada*	334.2	569.9	58.6%	-0.3		
20	Italy	667.6	1140.5	58.5%	-0.3		
21	***Germany***	1377.9	2364.6	58.3%	-0.3		
22	Sweden	132	227.3	58.1%	-0.3		
23	***South Africa***	76.9	132.5	58.0%	-0.3		
24	Czech	27.8	48.9	56.9%	-0.5		
25	Thailand	100.1	177.5	56.4%	-0.5		
26	***South Korea***	267.4	483.1	55.4%	-0.6		
27	Malaysia	46.5	89.8	51.8%	-1.0		
28	Singapore	38.3	93	41.2%	-2.1		
29	*China*	336.2	906.1	37.1%	-2.6		
30	Argentina	na	295.1				
31	***Taiwan***						

Source: World Development Indicators

Tarrifs

Rank	Country	Average Tariff	z-Score		
1	Singapore	0	1.22	mean	8.32
2	***Israel***	0	1.22	sd	6.80514
3	***Hong Kong***	0	1.22		
4	*Canada*	0	1.22		
5	***Japan***	2.7	0.83		
6	***Mexico***	2.8	0.81		
7	France	3.6	0.69		
8	***Germany***	3.6	0.69		
9	Italy	3.6	0.69		
10	Netherlands	3.6	0.69		
11	Spain	3.6	0.69		
12	Sweden	3.6	0.69		
13	***UK***	3.6	0.69		
14	Australia	3.9	0.65		
15	Czech Repub	5.9	0.36		
16	***South Africa***	8.4	-0.01		
17	***Taiwan***	8.6	-0.04		
18	***South Korea***	10.1	-0.26		
19	Hungary	10.9	-0.38		
20	Chile	10.9	-0.38		
21	Argentina	11.3	-0.44		
22	***Indonesia***	11.7	-0.50		
23	Malaysia	11.9	-0.53		
24	Russia	13.4	-0.75		
25	*Brazil*	14.8	-0.95		
26	Poland	15.2	-1.01		
27	Thailand	17	-1.28		
28	Egypt	17	-1.28		
29	*China*	20.9	-1.85		
30	*Philippines*	27	-2.74		
31	India	27.7	-2.85		

Source: World Development Indicators, USTR Foreign Trade Barriers

Current Account as a % of GDP

Rank	Country	CA/GDP	z-Score	1996 CA (in $ millions)	1996 GDP (in $ millions)	1996 CA/GDP	1995 CA (in $ millions)	1995 GDP (in $ millions)	1995 CA/GDP
1	Singapore	**19.53%**	4.1	14,100	72,200	19.53%	na	na	
2	Netherlands	**6.10%**	1.3	19,400	317,800	6.10%	na	na	
3	Sweden	**3.36%**	0.8	6,200	184,300	3.36%	na	na	
4	Russia	**3.06%**	0.7	12,261	459,444	2.67%	11,369	328,858	3.46%
5	Italy	**2.94%**	0.7	42,800	1,205,846	3.55%	25,700	1,107,312	2.32%
6	***Taiwan***	**2.29%**	0.6	7,220	271,460	2.66%	5,007	260,766	1.92%
7	Poland	**1.91%**	0.5	(500)	141,477	-0.35%	5,000	119,674	4.18%
8	***Japan***	**1.85%**	0.5	66,700	4,511,388	1.48%	111,300	5,029,719	2.21%
9	France	**1.21%**	0.3	20,100	1,571,103	1.28%	17,500	1,537,901	1.14%
10	*China*	**1.12%**	0.3	7,700	808,180	0.95%	6,532	508,121	1.29%
11	Spain	**0.86%**	0.3	8,800	588,812	1.49%	1,300	569,052	0.23%
12	***UK***	**-0.28%**	0.0	-	1,106,216	0.00%	(6,230)	1,106,216	-0.56%
13	***Mexico***	**-0.44%**	0.0	(1,800)	288,372	-0.62%	(654)	249,901	-0.26%
14	Egypt	**-0.49%**	0.0	(380)	67,994	-0.56%	(254)	60,472	-0.42%
15	***Germany***	**-0.79%**	-0.1	(16,700)	2,360,933	-0.71%	(20,820)	2,401,019	-0.87%
16	*Canada*	**-0.89%**	-0.1	(1,397)	587,165	-0.24%	(8,693)	565,816	-1.54%
17	***Hong Kong***	**-0.98%**	-0.1	(1,600)	163,300	-0.98%	na	na	
18	Chile	**-1.60%**	-0.2	(2,558)	74,500	-3.43%	157	67,297	0.23%
19	India	**-1.64%**	-0.3	(5,896)	355,662	-1.66%	(5,524)	338,754	-1.63%
20	***South Africa***	**-2.25%**	-0.4	(2,316)	123,934	-1.87%	(3,496)	133,125	-2.63%
21	Hungary	**-2.28%**	-0.4	(1,700)	74,700	-2.28%	na	na	
22	Argentina	**-2.55%**	-0.4	(5,200)	288,300	-1.80%	(9,273)	281,856	-3.29%
23	*Brazil*	**-2.90%**	-0.5	(24,300)	743,327	-3.27%	(18,136)	715,371	-2.54%
24	***South Korea***	**-3.23%**	-0.6	(22,800)	491,119	-4.64%	(8,251)	455,417	-1.81%
25	*Philippines*	**-3.49%**	-0.6	(3,586)	83,181	-4.31%	(1,980)	74,177	-2.67%
26	***Indonesia***	**-3.73%**	-0.7	(8,700)	224,485	-3.88%	(7,200)	201,183	-3.58%
27	Czech Repub	**-3.94%**	-0.7	(4,500)	114,300	-3.94%	na	na	
28	***Israel***	**-4.79%**	-0.9	(4,500)	92,800	-4.85%	(4,091)	86,649	-4.72%
29	Australia	**-4.94%**	-0.9	(15,300)	349,037	-4.38%	(19,200)	349,037	-5.50%
30	Malaysia	**-7.04%**	-1.4	(5,160)	96,825	-5.33%	(7,500)	85,760	-8.75%
31	Thailand	**-8.21%**	-1.6	(15,340)	184,640	-8.31%	(13,554)	167,022	-8.12%

mean	-0.004
sd	0.049